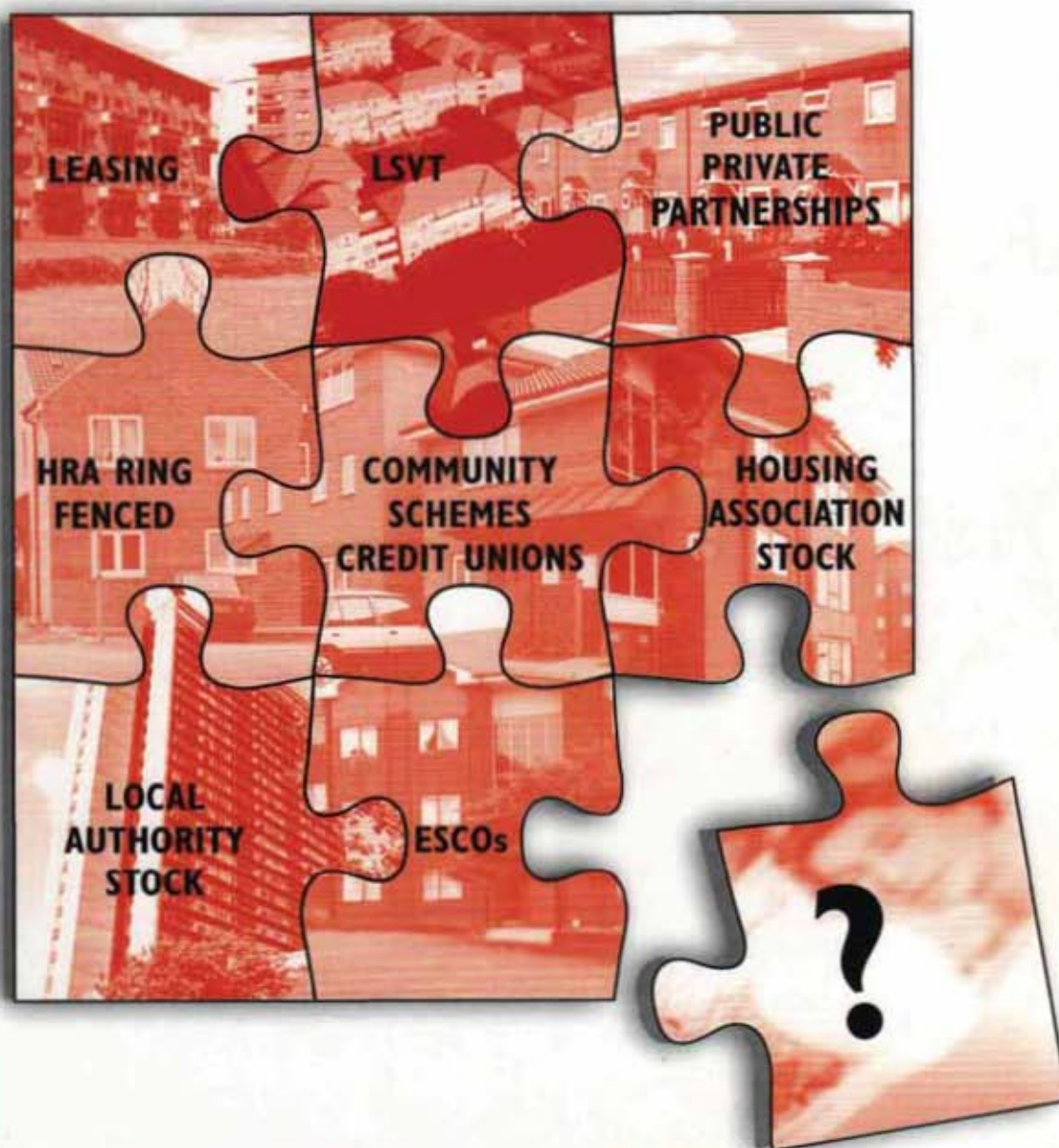


Taking stock –

private financing of energy efficiency in social housing



ENERGY EFFICIENCY

ARCHIVED DOCUMENT

BEST PRACTICE
PROGRAMME

PREFACE AND ACKNOWLEDGEMENTS

The subject of this General Information Report is complex. BRECSU has developed the document on behalf of the Department of the Environment, Transport and the Regions with the help, in the early stages, of Bristol Energy Centre, and the expertise of the advisory group. The guidance offered here, while intended to be helpful, deals with complex areas of law which, ultimately, only the courts can interpret authoritatively. It is for local authorities to reach their own interpretation of relevant legislation, with the assistance of their legal advisers as necessary and subject to auditor scrutiny.

Many of the issues discussed in this Report are specific to legislation and funding systems in England. The system for Wales is different in some respects, and the systems for Northern Ireland and Scotland are very different. Further

information on the different funding systems can be obtained by contacting the Welsh and Scottish Offices and the Department of the Environment (Northern Ireland) (DoE (NI)).

Housing C Division
The Welsh Office, Cathays Park, Cardiff CF1 3NQ
Tel: 01222 825219

Housing Division 1
The Scottish Office, Victoria Quay
Edinburgh EH6 6QQ
Tel: 0131 244 5566

Housing Division
Department of the Environment (Northern Ireland), Clarence Court, 10-18 Adelaide Street
Belfast BT2 8GB
Tel: 01232 540784

ADVISORY GROUP

We are grateful to the members of the advisory group who contributed to the preparation of this Report; the group was made up of the following members:

<i>Mark Frankel</i>	DETR, Local Government Capital Finance	<i>Malcolm Lynch</i>	Malcolm Lynch Solicitors (International Common Ownership Movement)
<i>Nick Ratcliffe</i>	DETR, Local Authority Housing Finance	<i>Paul Randon</i>	The Co-operative Bank plc
<i>Nigel Foster</i>	DETR, EEWD, Energy Services Team	<i>Leslie Muggerridge</i>	London Borough of Tower Hamlets
<i>Mike Rundle</i>	AHS Emstar	<i>Steve Fitzgerald</i>	Powerline Energy Services Ltd
<i>Peter Rousseau</i>	The 4Ps		

CONTENTS

1	INTRODUCTION	1
	About this Report	1
	The Home Energy Conservation Act 1995 and Local Agenda 21	1
	How to use this Report	2
2	OVERVIEW	3
	The need for private finance	3
	Existing sources of finance	3
	Restrictions on private finance in local authority housing	4
	Basic concepts for working with private sector finance	4
	The Private Finance Initiative	5
	Energy services companies	5
	Large-scale voluntary stock transfer	6
	Private finance for tenants	6
	Matrix of mechanisms for local authorities	6
	Matrix of mechanisms for housing associations	6
3	LEASING	8
4	RENT LINK	9
5	LOANS TO TENANTS	11
6	BULK DISCOUNTS AND CASHBACKS	14
7	SELLING ELECTRICITY DIRECT TO TENANTS	16
8	TRADING AND JOINT VENTURE COMPANIES	18
9	SERVICE CONTRACTS AND THE PFI - DBFO APPROACH	20
10	ENERGY SERVICES COMPANIES	22
11	STOCK TRANSFER	24
12	LOOKING TO THE FUTURE	26

CONTENTS

13	CASE STUDIES	27
1	Vaillant Boilers Ltd – 'Release'	27
2	Heatlease – Crewe and Nantwich Borough Council	28
3	'Rentlink' – Mendip District Council	29
4	Saving and loan scheme – Cambridge Housing Society	30
5	LEEP – Credit Union loans for CFLs	31
6	Fridgesavers – national bulk discount scheme	32
7	Selling electricity to tenants – St Pancras Housing	33
8	Combined heat and power – Newcastle City Council	34
9	Godiva Windows Ltd – Coventry	35
10	EnviroEnergy Ltd – waste to energy CHP scheme – Nottingham	36
11	Stock Transfer – Penwith Housing Association	38
14	SUMMARY OF RELEVANT LEGISLATION	40
14.1	Summaries of key legislation – local authority housing	40
14.2	Summary of key legislation – registered social landlords and unregistered housing associations and their tenants	48
14.3	Powers available to social landlords	52
	REFERENCES	53
	APPENDIX 1 GLOSSARY OF TERMS AND ABBREVIATIONS	54
	APPENDIX 2 USEFUL CONTACTS	55

1 INTRODUCTION

ABOUT THIS REPORT

This Report has been produced to inform local authority managers, and other social housing landlords, on the potential for using financial sources other than public funds in order to improve the energy efficiency of their housing stock.

The aim of this Report is to show how various finance mechanisms can be used to fund energy efficiency improvements in housing. The emphasis is placed on innovative methods of financing or facilitating energy efficiency programmes rather than through existing housing or energy-related grants.

For guidance on improving the energy efficiency of private housing see General Information Report 50 (GIR 50) 'Unlocking the potential - financing energy efficiency in private housing'. Both Reports should be read in conjunction with Good Practice Guide 82 (GPG 82) 'Energy efficiency in housing - guidance for local authorities'^[1].

These publications are produced as part of the Energy Efficiency Best Practice programme managed by BRECSU on behalf of the Department of the Environment, Transport and the Regions (DETR).

Some of the issues discussed in this Report are specific to legislation and regulations in place only in England.

THE HOME ENERGY CONSERVATION ACT 1995 AND LOCAL AGENDA 21

The Home Energy Conservation Act (HECA) 1995 places a statutory obligation on local authorities to prepare Energy Conservation Plans to improve the energy efficiency of all domestic housing by some 30% over a 10-15 year period (DOE circular 2/96^[2]).

Although HECA specifically relates to improving energy efficiency in housing, many local authorities have developed more general strategies

The information provided in this Report can be used for developing programmes and raising awareness of legal implications and potential pitfalls. It is recommended that legal advice be sought where there may be potential problems.

Throughout this Report the following abbreviations are used to indicate the various mechanisms for implementing energy efficiency measures. The abbreviated form will assist the reader in cross-referencing between the early sections of the Report and the case studies that illustrate the success of the strategy.

L - LEASING	T+JV - TRADING AND JOINT VENTURE COMPANIES
RL - RENT LINK	SC - SERVICE CONTRACTS
CU - CREDIT UNIONS	ESCO - ENERGY SERVICES COMPANIES
UL - UNSECURED LOANS	ST - STOCK TRANSFER
BD - BULK DISCOUNTS	
E→T - SELLING ELECTRICITY DIRECT TO TENANTS	

What finance mechanism is appropriate for the measures I want to install?

MATRICES
pages 6 and 7

How does that finance mechanism work?

FINANCE MECHANISMS
pages 8 to 26

Are there any practical examples of the application of that mechanism?

CASE STUDIES
pages 27 to 39

Where can I get further detailed information?

REFERENCE SECTION
pages 53, 55 and 56

INTRODUCTION

to reduce the emission of carbon dioxide (CO₂) and promote sustainable development through their Local Agenda 21 plans.

These objectives necessarily have to be met within existing legislation and financial constraints. Thus local authorities will want to consider acting as facilitators or enablers rather than as direct providers or financiers. This is an emerging role for many authorities, although the experience gained in developing community participation and other partnership arrangements in Local Agenda 21 initiatives will be of value.

HOW TO USE THIS REPORT

As part of a HECA strategy, local authorities will wish to identify which programmes to prioritise in order to meet their objectives.

Table 1 contains information on national energy use and CO₂ emissions (expressed as kilotonnes of carbon), and the potential savings from existing cost-effective energy efficiency measures. It gives a clear idea of where local authorities can most usefully target their resources to maximise energy and CO₂ savings.

Although the figures may vary regionally, table 1 illustrates the need to consider the implications of tenure and the type of measure being promoted when drawing up programmes. The table does ignore household income although, as many social housing tenants are dependent on low incomes, this will influence the mechanism chosen. It is assumed that 30% of the savings in heating measures will be taken in improved comfort.

Chapter 2 includes matrices to assist in identifying the finance mechanism appropriate for financing a particular energy efficiency measure. More detailed information on each finance mechanism can be found in chapters 3 to 11. The case studies in chapter 13 highlight practical examples of the application of these mechanisms. In practice, programmes may promote more than one measure and use a combination of mechanisms.

Having identified a particular finance mechanism, it may be useful to obtain more detailed information. Chapter 14 provides legal references; and useful contacts and relevant Internet sites are shown in appendix 2. Referenced publications are detailed on page 53.

	Owner-occupied (15 720 000)*		Local authority (4 900 000)*		Housing association (1 050 000)*		Private rented (1 651 000)*		All tenures (23 321 000)*	
	Energy PJ	Carbon ktonnes	Energy PJ	Carbon ktonnes	Energy PJ	Carbon ktonnes	Energy PJ	Carbon ktonnes	Energy PJ	Carbon ktonnes
Energy use and carbon emissions of current housing stock	1255.6	27 382	290.2	6764	64.6	1555	112.2	2782	1722.5	38 482
Potential annual energy savings from current cost-effective measures										
Loft insulation	14.5	273	3.8	82	1.0	27	2.4	55	21.7	382
Cavity wall insulation	69.6	1227	30.4	518	6.6	109	6.6	109	113.2	1991
Double glazing	32.8	573	15.4	273	2.9	55	5.4	109	56.5	982
Draughtstripping	14.6	273	1.9	27	0.9	27	1.7	27	19.1	327
Hot water tank insulation	9.2	164	4.1	82	0.9	27	1.6	27	15.8	273
Improved heating systems	99.4	1418	15.8	218	4.5	55	6.7	109	126.4	1827
Low-energy lighting	15.7	545	4.9	164	1.1	27	1.6	55	23.3	791
Energy-efficient appliances	51.5	1773	13.7	464	2.7	82	4.1	136	72.0	2455
Total savings	307.3	6245	90.0	1827	20.6	409	30.1	627	448.0	9027
% of current energy use	24.5	22.9	31.0	27.1	31.9	26.5	26.8	21.9	26.0	23.5

Table 1 Annual energy use and CO₂ emissions (expressed as ktonnes of carbon) from current housing stock, and potential savings from existing cost-effective measures (Source: BRE, 1995)

*Size of total housing stock

ARCHIVED DOCUMENT

2 OVERVIEW

THE NEED FOR PRIVATE FINANCE

Local authority housing managers report insufficient public funding to enable the full upgrading of the local authority housing stock to standards that provide affordable warmth and healthy homes for all tenants. Housing associations are generally less restricted in the amounts of money available but none the less are driven by the same need to provide affordable housing.

It is therefore necessary to look at ways in which to attract funding from 'private' sources.

It is worth noting that some of the existing sources of finance such as European programmes require matched funding and could be used to leverage additional private funding. Several of the financing mechanisms discussed in this Report combine an effective mix of public and private funding.

EXISTING SOURCES OF FINANCE**Finance for energy efficiency in local authority housing**

There is a variety of sources of public finance currently available to local authorities which contribute to the total sum available for expenditure on energy efficiency in their housing stock.

Credit approvals under the Housing Investment Programme (HIP) and *supplementary credit approvals* are the main sources of finance for energy efficiency and most major capital works in local authority housing. Government currently restricts these in order to limit public sector borrowing. As part of their annual submission for HIP allocations, housing authorities are asked to provide progress reports under section 3 of HECA. The reports are used to inform decisions on the HIP.

The *Housing Revenue Account (HRA)* is the fund into which local authority rents are placed. Part of the HRA subsidy paid by central government reimburses authorities for rebates granted to tenants by way of housing benefit. This element of the HRA subsidy is effectively capped because central government will generally pay subsidy only to an amount equivalent to rebates on rents that are at or below guidelines set by DETR on an annual basis.

Under the *Capital Receipts Initiative*, the government has allocated additional supplementary credit approvals to local authorities to increase investment in housing and housing-related regeneration, including energy efficiency works. Nearly £800 million has been released in 1997/98 and 1998/99. Allocations are made two-thirds on the basis of assessed need and one-third on the basis of receipts set aside by authorities since 1990.

Finance for energy efficiency in housing associations

Housing associations and other registered landlords represent a growing component of many local authorities' total housing responsibility.

Housing associations can be considered as 'private sector' organisations when discussing their access to finance. The main sources of funding for housing associations are the Social Housing Grant from central government and possible funding from the local authority. They also have access to the full range of private financial institutions. As such, housing associations are able to utilise without restriction the financing mechanisms described in this Report.

The Housing Corporation, which provides much of the finance for housing associations, stipulates relatively high levels of energy efficiency in development standards that form a part of its finance agreements. These development standards cover both new build and the refurbishment of existing housing.

Other sources of finance

The following existing financing mechanisms can be applied to all types of social housing (and in some cases to private housing as well).

- *Single Regeneration Budget (SRB)* for regeneration works
- *Rural Challenge* and *Estates Renewal Challenge Fund*.
- *Home Energy Efficiency Scheme (HEES)* covers all tenures of housing where eligible

OVERVIEW

householders are aged 60 or over, or claiming a means-tested benefit.

- *Energy Efficiency Standards of Performance (SoP)* places on the regional electricity companies the requirement to spend £100 million over the period 1994-98 on measures to reduce electricity consumption in the franchise market (under 100 kW). The Office of Electricity Regulation has indicated that SoP will be extended to the year 2000.
- *European Commission funding for energy projects* is provided under the SAVE, JOULE, THERMIE or ALTENER programmes. SAVE relates primarily to training and dissemination of projects, while JOULE and THERMIE relate more to research and development and demonstration projects for new energy technologies. ALTENER is concerned with renewable energy initiatives.
- *Funding through other European programmes* (such as regional development or employment/training programmes, eg URBAN) might include an energy component. This avenue has been successfully employed by the Wise Group to set up a number of Intermediate Labour Market initiatives.

Seeking advice in relation to European programmes is vital, as assembling bids is very time consuming. Advice is available from government offices and from the European Commission. BRECSU can provide specific advice on European energy programmes (see appendix 2).

RESTRICTIONS ON PRIVATE FINANCE IN LOCAL AUTHORITY HOUSING

Where the finance is a loan rather than a grant, whether it is on or off the balance sheet, it has to be repaid. In practice these repayments can come from only two sources, either from the tenants through rent or service charges, or from the government through subsidies to the HRA or to the tenants. Whatever source of funding is utilised, it is necessary for local authority housing managers to consider the following restrictions.

Compliance with the Capital Finance Regulations

The capital finance system was designed to ensure that authorities have no incentive to use credit arrangements rather than borrowing unless they genuinely represent better value for money. The following guidance from the DETR indicates how this principle is applied:

'... authorities may also obtain the use of capital assets on credit, for example, by leasing or deferred purchase. Under the Capital Finance System, these are credit arrangements and credit cover is required... The full value of this expenditure scores against the authority's capital resources in the year that the contract begins (just as if the money had been borrowed to buy them outright). This ensures that the decision whether to buy or lease is made solely on value-for-money considerations.' (DETR, 1997)⁽³⁾.

The capital finance system restricts the options for private sector funding. However, it has been relaxed to facilitate the Private Finance Initiative arrangements.

Setting rents and the impact on the Housing Revenue Account

Some of the financing mechanisms described in chapters 3-12 involve increased service charges or rents to tenants. There are implications for the HRA if rents (excluding service charges) increase above guidelines set annually by the DETR. Where a council increases rents above the guidelines:

- it may not receive the element of the HRA subsidy which reimburses authorities for the rebates granted to tenants by way of housing benefit on the proportion of any rent increase above the guidelines
- only increases in rents from tenants who are not on housing benefit will provide additional income to the authority's HRA.

BASIC CONCEPTS FOR WORKING WITH PRIVATE SECTOR FINANCE

Most housing managers are familiar with working in conjunction with the private sector. It is, however, important to understand a few basic concepts.

OVERVIEW

- *Risks.* When a private funding body looks at investing, one of the prime concerns is the risk associated with the investment. Information is vital, as investing in an area where information is poor will increase the perceived levels of risk. Therefore, a local authority which has recent housing stock condition data, thorough housing management records, full rent collection information, etc, will be at an advantage in securing private sector funding.
- *Transfer of risk.* Central government is looking to local government to transfer some of its appropriate commercial risks to the private sector, based on the principle that the private sector will have greater expertise in managing risk. One of the key criteria for the Private Finance Initiative (PFI) is that there should be genuine risk transfer. The apportionment of risk should, however, ensure that only risks over which the investor has control should be transferred.
- *Rate of return.* Any private investor will want to make an adequate rate of return on their investment and this will usually correspond with higher interest rates than those charged in the public sector. The rate of return will also reflect the perceived level of risk of the investment.

Private sector investors may also be looking for a variety of benefits from their investment other than a simple financial return. For example, a fuel supplier might be wanting to expand the customer base in a particular area, or an energy services company might want to acquire a piece of heating plant in order that they can serve commercial customers as well as the local authority.

THE PRIVATE FINANCE INITIATIVE (PFI)

The PFI was created in 1992 to encourage the development of projects by public sector bodies using private sector finance and management skills. The PFI provides an approved framework for utilising private sector investment in public sector projects. The government has simplified the regulations applying to PFI, with the expectation that this will become a standard route for privately financed schemes in the local authority sector.

The objective of the PFI is to secure the best possible value for money for the taxpayer by bringing private sector investment, skills and procedures into the provision of public services.

The Capital Finance Regulations set the framework for local authorities setting up PFI projects. They require that the project should involve genuine transfer of risk to the private sector as measured by the contracts structure testing regulations (see paragraph 14.1.1b).

There are two specific mechanisms that are utilised in PFI projects:

- the design, build, finance and operate (DBFO) approach which covers a range of asset-based contracts
- joint ventures where public and private partners join together to form a 'privately influenced' company (the regulations relating to public/private joint venture companies are currently being reviewed).

Both of these mechanisms are described in more detail, see:

- Service contracts (chapter 9)
- Trading companies and joint venture companies (chapter 8)
- Summaries of key legislation (paragraph 14.1.1b).

The private finance unit of the DETR has published guidance on local authority PFI: 'The Private Finance Initiative and local authorities - an explanatory note'⁽⁴⁾ is available from the unit (telephone 0171 890 5015). Other sources of information from within DETR are shown in appendix 2 of this Report.

ENERGY SERVICES COMPANIES (ESCOs)

ESCOs are companies concerned to maximise efficient and cost-effective supply and end-use of energy for their customers. There is considerable interest in establishing ESCOs in the context of the liberalisation of the gas and electricity markets. An ESCO could be a joint venture company and could also be providing services through a DBFO or service contract with a local authority.

OVERVIEW

LARGE-SCALE VOLUNTARY STOCK TRANSFER

This is where all or part of a council's housing stock is transferred to the ownership of a housing association or local housing company. One reason for doing this is to escape the restrictions on the use of private finance by local authorities. Although this is a very drastic measure, it has now been utilised throughout the UK as a means of accessing private investment to fund large-scale rehabilitation of the social housing stock. This is described in greater detail later in this Report (see chapter 11 and case study 11).

PRIVATE FINANCE FOR TENANTS

While the options for providing finance to a local authority are restricted by various regulations, this is not the case when providing finance direct to an

authority's tenants. All social landlords should consider this option.

This can be a fruitful avenue to pursue, particularly in the case of measures not involving the installation of fixtures in a property, such as efficient appliances and lighting (see chapter 5).

MATRICES OF MECHANISMS

Certain financing mechanisms are more appropriate for particular types of energy efficiency measure or programme. The matrices are designed to give some guidance on the choice of financing mechanism. The numbers given in *italics* refer to case studies in chapter 13 of this Report, illustrating the use of the particular mechanism for that measure.

MATRIX OF MECHANISMS FOR LOCAL AUTHORITIES					
	Insulation	Central heating	Low-energy lighting	Energy-efficient appliances	District heating and CHP
Leasing	N/A	Yes <i>1 and 2</i>	N/A	Possible	N/A
Rent linking	Yes <i>3</i>	Yes <i>3</i>	N/A	N/A	Possible
Loans to tenants	Yes	Yes	Yes <i>5</i>	Yes <i>4</i>	N/A
Bulk discounts	N/A	N/A	Yes <i>5</i>	Yes <i>6</i>	N/A
Direct sales of electricity	N/A	N/A	N/A	N/A	Yes <i>7</i>
Trading company	Yes <i>9</i>	Possible	Yes	Yes	Yes <i>10</i>
Joint venture	Yes <i>9</i>	Possible	Yes	Yes	Yes <i>8 and 10</i>
Service contract	Yes	Yes	N/A	N/A	Yes <i>8</i>
ESCO	Yes	Yes	Possible	Possible	Yes <i>7</i>
Stock transfer	Yes <i>11</i>	Yes <i>11</i>	N/A	N/A	Possible

Numbers identify case studies in chapter 13

OVERVIEW

MATRIX OF MECHANISMS FOR HOUSING ASSOCIATIONS

	Insulation	Central heating	Low-energy lighting	Energy-efficient appliances	District heating and CHP
Leasing	N/A	Yes 1 and 2	N/A	Possible	N/A
Rent linking	Yes 3	Yes 3	N/A	N/A	Possible
Loans to tenants	N/A	N/A	Yes 5	Yes 4	N/A
Bulk discounts	N/A	N/A	Yes 5	Yes 6	N/A
Direct sales of electricity	N/A	N/A	N/A	N/A	Yes 7
Trading company	Yes 9	Yes	N/A	N/A	N/A
Joint venture	Yes 9	Possible	Possible	Possible	Yes 8 and 10
Service contract	N/A	Yes	Yes	Yes	Yes 8
ESCO	Yes	Yes	Yes	Possible	Yes 7

Numbers identify case studies in chapter 13

3 LEASING

GENERAL DESCRIPTION

L This mechanism is appropriate only for energy-efficient equipment and appliances that are not part of the 'fixtures and fittings' of a dwelling. Historically, leasing has been used as a way of financing the installation of electric storage heaters and gas central heating systems. However, the option of leasing gas central heating appeared to have been removed by a legal judgement in the House of Lords (see paragraph 14.1.4) which centred on the ownership of items that are fixtures. Where it is clear that equipment has been permanently installed, it must be a fixture and therefore cannot be leased. The 'Release' scheme operated by Vaillant seeks to overcome this constraint.

CASE STUDY 1 Stoke on Trent City Council

Page 27

The company leasing the equipment is also likely to be contracted to install and maintain it over the period of the lease.

TARGET GROUPS

Leasing schemes are very appropriate for dwellings where there is no alternative to electric heating, eg some high-rise flats. They can also be used for installing conventional heating systems.

POSITIVE AND NEGATIVE ASPECTS

The positive aspects of leasing schemes:

- subject to detailed rules in the capital finance regulations, an operating lease can be treated as a revenue expense and funded out of the housing revenue account with no impact on capital resources.

The negative aspects of the leasing schemes include:

- they are limited to equipment
- there can be problems if tenants exercise their 'right to buy', which will not include any leased equipment
- there needs to be a careful assessment to check that any potential lease represents value for money
- the tax situation for suppliers with reference to capital allowances for investments in their own assets needs to be checked (see paragraph 14.1.4).

SOURCES OF FUNDING

Many of the regional electricity companies operate leasing schemes, or there are specialised leasing companies.

CASE STUDY 2 Crewe and Nantwich Borough Council

Page 28

TIMESCALE

The time taken to implement a scheme will be greatly influenced by any requirement to obtain competitive tenders and the need to modify tenancy agreements. Services (including leasing schemes) over the value of 150 000 ECU need to be advertised for tender in the European Journal, and so timetables for larger schemes need to allow for this. Once these hurdles are cleared, the actual installation can be implemented in a matter of months.

REPAYMENT

Schemes of a modest size can be funded by the overall annual increase in rents within DETR guidelines.

There are no regulations affecting repayments for housing associations.

SCALE ISSUES

The scale of any one scheme will be limited by income on the HRA and allowable rent increases.

LEGAL CONSIDERATIONS

The main legal considerations are concerning the type of lease. The lease must be an 'operating lease' under the Local Authorities (Capital Finance) Regulations 1997. Under an operating lease there should be a 10% residual value on all the leased goods. Local authorities are advised to consult the External Auditor before entering into a lease agreement (see paragraph 14.1.4).

CONSULTATION

Leasing schemes usually require an amendment to tenancy agreements referring to rent levels and acknowledgement that the equipment belongs to the leasing company. This means that there needs to be consultation with tenants to obtain their agreement to such changes.

4 RENT LINK

GENERAL DESCRIPTION

RL

This mechanism is based on the principle of rent levels being related to the energy

efficiency of the property. Local authorities will need to consider carefully the implications for their entitlement to HRA subsidy under present DETR rules.

In terms of fairness, a tenant with an energy-efficient property will have lower energy costs than another tenant living in a similar property that is energy inefficient, and so might be charged more for their superior property. Conversely the tenant of the energy-inefficient property might be compensated for the high fuel bills by a lower rent.

The operation of a rent link scheme requires all properties to be surveyed to establish their energy ratings and for the rating then to be related to rents by a points system.

There are two stages to establishing a rent link scheme.

- Firstly, the rent-setting policy needs to be changed to establish the link between rent levels and the energy efficiency of dwellings. Rent levels should be altered in line with the policy. At this point the changes should be revenue neutral.
- Once the rent link is established extra revenue can be generated by charging higher rents on properties as they are improved, thereby providing funds for programmes of work on unimproved properties.

TARGET GROUPS

Establishing a rent link scheme in a housing association or local housing company would not be constrained by the controls placed on local authority rents and so has the potential for generating more revenue. However, the most developed scheme is in a local authority.

CASE STUDY 3
Mendip District Council

Page 29

POSITIVE AND NEGATIVE ASPECTS

The positive aspects of rent linking include:

- the approach supports the idea of affordable rents and warmth to tenants
- it is a simple concept where the landlord can be seen to be fair to tenants
- expenditure on energy efficiency improvements leads to an increased revenue stream for further improvement programmes.

The negative aspects of rent linking include:

- upsetting established rent-setting policies
- there will be winners and losers when the scheme is established, with the potential for resistance from some tenants
- establishing a scheme is dependent on having a database of energy ratings of all dwellings in the housing stock.

SOURCES OF FUNDING

The extra revenue derived from the higher rents on properties that have been improved generates the investment required for future energy efficiency improvements.

TIMESCALE

Two factors determine the amount of time to establish a rent link scheme. The first is the status of information about the housing stock. Most social landlords will have a sample housing stock energy profile. It is, however, necessary to have a complete stock profile to operate a rent link scheme and this requires staff time and resources (or the use of consultants).

The second factor is the time required to carry out consultations with the tenants about the scheme.

REPAYMENT

This mechanism is a form of repayment.

SCALE ISSUES

Rent link schemes have the potential to provide a steady stream of funds for energy efficiency improvements allowing for long-term programmes to improve the whole housing stock.

RENT LINK

LEGAL CONSIDERATIONS

The main consideration for local authorities will be whether rent link schemes cause them to exceed guideline rents which affect their entitlement to HRA subsidy. They will also need to consider whether such schemes could lead to reductions in the rent rebate element of the subsidy under the Modular Improvements and Disproportionate Rent Increases rules (see paragraph 14.1.2c).

ensuring that there is political backing for the change to rent linking.

Tenant consultation should emphasise the move to a 'fairer' renting policy and will involve agreeing some kind of transitional arrangement to soften the impact on the losers on establishment of the scheme.

CONSULTATION

Given the sensitivity of renting policies, detailed consultation will be required. This should start by

5 LOANS TO TENANTS

GENERAL DESCRIPTION

UL

Setting up loan schemes for tenants is a way of encouraging the use of energy-efficient equipment in their homes that is not classed as 'fixtures and fittings'.

Many tenants face one or more of the following problems when borrowing to purchase energy-efficient equipment, appliances and lighting:

- poor credit rating
- low income
- low awareness of what to purchase
- the size of loans are too small for most traditional lenders.

The social landlords have an enabling role in overcoming these problems by:

- advising tenants
- negotiating on the tenants' behalf for favourable terms with lenders and suppliers
- setting up and administering systems for repayment that help to spread credit risk.

There are two basic forms of loans.

- Secured loans are secured against an asset, most commonly an individual's home and so are inappropriate for most social housing tenants.
- Unsecured loans are the most common type of loan. Most loan providers will have a credit-rating checklist that applicants must satisfy before the loan is granted. Unsecured loans generally have a higher interest rate than secured loans and can be obtained from a variety of sources including banks, building societies, finance houses, credit cards, retail credit (for example, for the purchase of appliances).

CASE STUDY 4
Cambridge Housing Society

Page 30

Many social housing tenants will find it difficult to obtain unsecured loans from standard providers of finance for the reasons given above. An alternative is to obtain a loan through a credit union.

Local authorities could consider developing initiatives in conjunction with local credit unions, or could promote other schemes through them.

Behavioural measures such as advice or training initiatives would be particularly appropriate for this channel. Board and committee members of the credit union may be ideal candidates for any energy-awareness training course run by a local authority.

CREDIT UNIONS

CU

Credit unions form an extensive network of savings and loan organisations throughout the UK. There are approximately 600 credit unions with a total membership of around 200 000. They are constituted as registered Friendly Societies and are, therefore, not set up for profit or for charity but purely for the benefit of their members. A credit union is owned and controlled by its members, and is a form of financial cooperative. In addition to savings and low-cost loans, a credit union will often provide free life assurance to its members.

Members of a credit union are united by at least one of three types of common bond:

- community – live in same geographical area
- employee – employed by same employer
- association – members of the same organisation, such as a trade union.

Over two-thirds of credit unions have a community common bond, with the remainder being split approximately equally between the other two types. The employee credit union is the fastest growing sector.

Regulations governing credit unions stipulate that all members who borrow must also save with the credit union. Before making a loan to a member the credit union will normally expect the borrower to have saved with the union for a period of time; generally this is likely to be at least three months.

CASE STUDY 5
Lothian and Edinburgh
Environmental Partnership

Page 31

TARGET GROUPS

While people from all sectors of the community are members of credit unions, the largest groups are from lower and low to middle income households. Credit

LOANS TO TENANTS

unions also actively encourage savings from children, who can save as junior members.

Community credit unions are often the only source of savings for some sections of the population who do not have a bank account, or who would be unlikely to be granted loans from other traditional lending sources because of low pay or because the applicant receives benefit. They are, therefore, potentially one of the most effective channels for communicating with this group and encouraging them to invest in energy efficiency.

POSITIVE AND NEGATIVE ASPECTS

Positive aspects are:

- credit unions tend to be community-based, or have a common interest, so can act as a marketing channel to their members
- the rate of interest is generally lower than for other sources of finance.

A negative aspect is that:

- credit unions provide only small loans to their members as the amount loaned is usually calculated as a multiple of the amount saved. A small loan of up to a few hundred pounds is very suitable for the purchase of compact fluorescent lamps (CFLs) or for appliances with high energy efficiency ratings.

SOURCES OF FUNDING

Generally, the credit union funds are invested by members on a regular basis, providing a pool of money that can be loaned to individual members once they have established a record of saving with the union. This period is generally three months. The amount loaned is usually calculated as a multiple of the amount saved, or as a percentage of the total assets of a union. Each credit union sets its own lending

criteria, but legislation prevents more than 5% of the union's assets being loaned to one individual. These funds could be supplemented by external funds, for example a grant to act as a revolving loan fund.

TIMESCALE

There are few timescale limitations to the promotion of energy efficiency through credit unions. The key issue will be the length of time it will take individual members to save either sufficient funds to enable them to borrow the requisite amount from the credit union, or a sufficient amount of time to establish a creditworthy status under the union's rules (often three months).

REPAYMENT

Credit union repayment terms are fixed by law at a maximum APR of 12.68%, which equates to 1% per month on a reducing balance. This is generally cheaper than other more traditional forms of unsecured loan, for example credit cards or bank loans.

SCALE ISSUES

The fact that most credit union members are on medium to low incomes means that this route will not result in a large-scale take-up of measures but it is a useful adjunct of other programmes.

LEGAL CONSIDERATIONS

More details on the legal framework under which credit unions operate can be found in the following legislation:

- Credit Union Act 1979
- Deregulation Order 1996
- Industrial and Provident Societies Acts 1965-1978.

Further information on credit unions can be obtained from the Association of British Credit Unions Ltd (see appendix 2).

LOANS TO TENANTS

If a credit union links loans from its funds to a particular product, service or supplier it may need to apply for a licence under the Consumer Credit Act 1974.

Local authorities recommending loan schemes should be aware of the various legal controls on recommending and operating loan schemes (see paragraph 14.1.6)

CONSULTATION

Local authorities are ideally placed to develop and promote energy efficiency initiatives through locally based credit unions, not least because they

form an established mechanism for communicating with the local community. Some local authorities already have their own employee credit union through which they could promote energy efficiency.

Early consultation with the credit union board will encourage them to adopt any initiatives the authority may develop. Similarly, linking credit unions with other local groups, for example Local Agenda 21, who can promote the energy efficiency and environmental message could provide an effective local partnership.

6 BULK DISCOUNTS AND CASHBACKS

GENERAL DESCRIPTION



In the social housing sector the main opportunity for obtaining bulk discounts for tenants is for the purchase of energy-efficient appliances and lighting. The principle is to reduce the price to the point where it is affordable and attractive for tenants to use their own resources to purchase the efficient appliance. Given the relatively low income of many tenants in social housing, this will often mean that other funding is required in addition to the bulk discount to get the price low enough. The most likely source of this funding is Energy Efficiency Standard of Performance (SoP) monies from public electricity suppliers (PESs).

CASE STUDY 6 Fridgesavers

Page 32

Another permutation on bulk discount schemes is the idea of cashbacks. Cashbacks have most effectively been developed at a national level, where a householder buying an efficient appliance can apply for a cashback, or refund, on part of the purchase price.

These may have been negotiated at a national level. For example, a successful SoP scheme provided CFLs at a discount price through retailers. This used a combination of funds from the SoP programme and the ability of the Energy Saving Trust (EST), which managed the scheme, to negotiate a lower unit price with CFL manufacturers.

At a regional level, groups of social landlords working together have successfully negotiated lower prices for various products and services on the assumption that they can facilitate a contract between their tenants and the retailer, installer or manufacturer. Similarly, many regional SoP schemes will be partly based upon a bulk discount element providing some financial incentive to the overall programme.

Bulk discount by combining the existing and potential purchasing power of large numbers of consumers (in this case social housing tenants) is

essentially the principle upon which some ESCOs are based.

TARGET GROUPS

Bulk discount and cashback schemes can be targeted at all sectors of the population.

POSITIVE AND NEGATIVE ASPECTS

For larger appliances it will be necessary for a number of local authorities to work together in order to generate sufficient sales to justify a discount.

Among the negative issues social landlords should be aware of when negotiating bulk discounts is the artificial inflation of the original price before a discount is applied.

It will be significantly easier for social landlords to set up discount schemes with organisations having a strong local or regional presence. Many of the large retail companies will centralise most of their decision-making with regard to pricing policy, and local store managers will have little flexibility to offer substantial discounts.

The main negative aspect about cashback schemes is that the entire sales cycle is extended by the need for the purchaser to claim a refund, and for that claim to be processed. This has obvious cost implications for any such initiative.

SOURCES OF FUNDING

At a local level, many suppliers and installers may be willing to provide discounts purely on the assumption that endorsement by the social landlord is likely to lead to a high number of sales leads.

The social landlord may wish to consider how it will resource the marketing of any scheme – whether it will fund the scheme itself or whether the scheme can be promoted through other activities the authority is involved with. For example, by a newsletter or through the authority's sponsorship of an Energy Efficiency Advice Centre; or whether the supplier(s) and/or installer(s) would provide financial support for any marketing activity.

BULK DISCOUNTS AND CASHBACKS

TIMESCALE

For relatively straightforward schemes, the set-up period could be a few months. Authorities should bear in mind the time to develop promotional materials, distribute them, and for the sales cycle to commence.

REPAYMENT

Most discount schemes will use the normal methods of payment – cash, cheque, charge card or credit card.

The availability of small loans from credit unions may be an important element of a successful scheme for low-income households.

SCALE ISSUES

Bulk discount schemes can range in size from small locally based discounts, for example discounted CFLs from local retailers, to large national schemes.

LEGAL CONSIDERATIONS

There are few legal considerations for local authorities to consider, but they should be aware of their powers to operate bulk purchase schemes under the Housing Act 1985 (see paragraph 14.1.7a)

The authority should also be aware of the Consumer Credit Act 1974 if it is considering

providing loan facilities via any initiative it may establish to implement energy efficiency in its area (see paragraph 14.1.7b).

CONSULTATION

As with most mechanisms, negotiating with potential suppliers will be easier if there is full support and endorsement from the authority's senior management and also from relevant members' committees. Such support will also help the scheme succeed once it is up and running.

Some basic research is needed to ensure that a similar scheme is not being developed at a national or regional level. This will avoid a duplication of offers being promoted at the same time. If national or regional schemes exist it may be more appropriate for the local authority to develop and implement a promotional strategy to ensure that the maximum number of households in its area benefit from the scheme.

Early discussions with local suppliers could help establish whether other overlapping schemes are in existence or being planned, and whether that supplier would be willing to provide real discounted prices. This could avoid spending resources on developing project ideas when there is little hope of their being implemented.

7 SELLING ELECTRICITY DIRECT TO TENANTS

GENERAL DESCRIPTION



Many local authorities and housing associations have combined heat and power (CHP) units generating electricity and heat for complexes of dwellings. The most common arrangement is either to sell the electricity to the PES or to use the distribution system to supply to a designated site (see case study 8). On some sites it is possible to sell the electricity direct to the tenants. The sales of electricity direct to tenants, in addition to heat, provides an additional revenue stream which can contribute to paying off the capital costs of the CHP unit and could eventually provide capital for further energy efficiency investment.

CASE STUDY 7 *Page 33* St Pancras Housing Association

Such an arrangement could be one element of the services provided by an ESCO set up by a social landlord (see chapter 10) [5,6].

TARGET GROUPS

This mechanism is most suitable where a CHP unit can serve a group of dwellings in close proximity with minimal use of the local electricity distribution grid.

POSITIVE AND NEGATIVE ASPECTS

The main positive aspects are that:

- the revenue stream from electricity sales is increased as it is likely that direct sales to tenants would attract a better price than could be negotiated by selling to the local PES
- the tenants will pay less for their electricity than if they were being supplied by the local PES.

The main negative aspects are that:

- the infrastructure costs for setting up electricity metering are fairly substantial
- the social landlord takes on the responsibility for billing and debt collection for electricity sales in addition to heat and rent.

SOURCES OF FUNDING

The funding of the CHP unit and of the metering system to enable sales of electricity to tenants can be considered separately. There are a number of options for the funding of CHP schemes where the supplier provides the capital investment and then recovers the investment through service charges, shared savings or similar arrangements.

Equipment suppliers can also meet the capital costs of metering. For example, a scheme being established by North British Housing Association will include the leasing of advanced dual heat and electricity prepayment meters with mains-borne data transfer to enable remote meter reading.

CASE STUDY 8 *Page 34* Newcastle City Council

TIMESCALE

It is possible to install a CHP scheme and the associated metering system in less than a year.

REPAYMENT

Which payment options are given to tenants is one of the critical decisions when utilising this mechanism. This will also be dependent on the type of metering employed. The no-risk choice is to offer only prepayment meters with the facility to be read remotely. This choice ensures payment in advance and no expensive meter reading costs. Prepayment meters are now the standard choice for new community heating schemes, and meter manufacturers are offering multiple utility meters that can take payments for heat and electricity through the same meter.

SCALE ISSUES

This type of scheme is simplest to operate when the electricity supplied falls below the maximum threshold of one megawatt for unlicensed electricity suppliers. Once a supplier is over this threshold they must be licensed and would be subject to all the regulatory controls placed upon licensed suppliers. Further advice can be obtained from the electricity

SELLING ELECTRICITY DIRECT TO TENANTS

regulator OFFER. One megawatt is equivalent to the supply for about 1000-1200 households.

LEGAL CONSIDERATIONS

The social landlord will need to set up a contract with their tenants, setting out the terms on which they are offering to supply electricity. The tenant will need to terminate their contract with their current electricity supplier. In most cases this will be with their PES where there is no formal contract. There is, however, a 'deemed contract' in law and it is advisable to get tenants to give written notice that they no longer wish to be supplied with electricity by that company.

Local authorities will need to comply with the Supplying Heat and Electricity (Local Government Miscellaneous Provisions Act 1976 s11) and the Electricity Act 1989 (see paragraph 14.1.9).

CONSULTATION

Consultation with tenants will be necessary to explain the advantages of purchasing electricity from their landlord. The advantages may not only be price but also improved payment arrangements. Advice will also be needed on termination of contracts with existing electricity suppliers and on the use of new metering technology.

Consultation will become even more necessary with the opening of competition in the domestic electricity market. Social landlords will need to provide a package that is more attractive than competing offers from a whole range of electricity suppliers.

8 TRADING AND JOINT VENTURE COMPANIES

GENERAL DESCRIPTION



Establishing or having a stake in a private sector trading company will mean that profits generated will benefit the local authority in proportion to the equity it holds in the company. The income generated will be a source of finance that can be used for energy efficiency improvements of the authority's housing stock. It is also likely that a trading company will be selling its services to the local authority. Trading companies are commonly set up as joint ventures.

A joint venture company is where two or more organisations come together to form a commercial company to provide specific services or to undertake certain activities for mutual benefit. For local authorities, being a partner in a joint venture company enables an activity or service to be taken into the private sector, allowing full access to private finance. At the same time the local authority has some influence over the company through its representation on the board.

Joint venture companies have been formed by local authorities to run combined heat and power schemes, and to manufacture PVC-U double glazing.

CASE STUDY 9
Coventry City Council

Page 35

CASE STUDY 10
Nottingham City Council

Page 36

Where a local authority has an involvement in a company, the control and structure of the company will determine whether its borrowings are subject to the capital controls on local authorities. To be exempt from the capital controls, a company would have to be an 'unregulated company' as defined by the Local Government and Housing Act 1989 and the 1995 Companies Order (see paragraph 14.1.8)

Joint venture and other types of company established as unregulated companies will, in most cases, have commercial management responding to private sector shareholders who take the commercial risks.

The local authority stake in a joint venture could be the transfer of an asset to the new company such as land, property or heating plant.

TARGET GROUPS

Housing of all tenures.

POSITIVE AND NEGATIVE ASPECTS

The positive aspects of forming a joint venture company include:

- gaining access to private finance
- being able to utilise commercial management expertise
- risk being transferred to the private sector
- can trade and make profits.

The negative aspects include:

- loss of direct democratic control of an activity or service
- loss of control of assets
- having to adjust to working with commercial partners
- having fully or partially to finance the establishment of the joint venture company
- legal responsibilities borne by the employees or elected members on the board of the company.

SOURCES OF FUNDING

The formation of a company would give access to investment from all the *main financial* institutions. It is also possible that a commercial partner might already have investment funds.

TIMESCALE

It is possible to set up a joint venture company in under a year but it will involve a considerable amount of time for officers and elected members. Tasks will include:

- seeking legal and financial advice on the structuring of the company
- establishing a shadow board which would be responsible for technical, economic and legal evaluations
- producing a detailed business plan
- negotiating the responsibilities of the partners in the joint venture.

TRADING AND JOINT VENTURE COMPANIES

REPAYMENT

The joint venture company would generate its income by selling services, which might be provided to the local authority (eg operation and maintenance of heating plant) or to tenants in the form of sales of heat or electricity.

SCALE ISSUES

Trading and joint venture companies have the potential for bringing in large-scale investment right across the housing stock.

LEGAL CONSIDERATIONS

The legal framework for regulating the capital finance consequences of the participation of local authorities in joint venture and other companies is set out in the Local Authorities (Companies)

Order 1995. Local authorities need to be satisfied that they have power to enter into any arrangements with a joint venture company (see paragraph 14.1.8).

CONSULTATION

Some local authority staff may be transferred to the new company and others will be affected by its formation. Therefore, it is important to keep staff informed about the objectives of setting up the new company.

Where a joint venture company is providing a service direct to tenants it will be important to consult them about issues such as standards of service and to safeguard their interests through contractual agreements with the new company.

9 SERVICE CONTRACTS AND THE PFI – DBFO APPROACH

GENERAL DESCRIPTION

SC

The concept of purchasing services from a private sector provider has been applied over a number of years, most commonly for the provision of district heating systems and small CHP units^[7,8]. A social landlord might for example have a contract for the provision of a certain quantity of heat, at specified temperatures over a period of 15 years with the service provider owning, maintaining and operating the heating plant.

CASE STUDY 8 Newcastle City Council

Page 34

The important elements of setting up service contracts include:

- working from an appropriate output specification which defines the desired level of service and sets out the penalties that will be incurred by the service provider if standards fall below an acceptable level
- negotiating an appropriate contract duration
- clearly defining the responsibilities and obligations of the contractor and the client
- detailing the ownership of major items of plant and equipment over the duration of the contract and when it ends.

Most contracts will have to go out to competitive tender and for large schemes sufficient time and resources should be allowed for a multi-stage tendering process.

It may be possible to develop a service contract under relaxations to the capital finance regulations introduced to promote the use of the PFI design, build, finance and operate (DBFO) approach in the local government sector. The DBFO approach is where a local authority will purchase a capital-intensive service from a private sector provider over the period of a long-term contract. The contractor takes responsibility for investing the

capital assets he believes are required, financing that investment and then managing the facilities to provide the specified level of service to the authority. The important qualifying factor is that the private sector takes the business risk.

A second concession available in the capital finance regulations is the 'Equipment Replacement Scheme' which covers contracts let by a local authority to the private sector for the energy management of premises, including council housing, which involve capital investment to reduce running costs. The types of services that might be funded in this way are the repair and maintenance of heating, lighting and district heating systems.

For service contracts operating under the Equipment Replacement Scheme, the required credit cover will be reduced by the average annual cost to the local authority of operating the facility over the five years prior to the contract.

Further information on the PFI is available in various publications which can be obtained from DETR (see contacts listed in appendix 2).

TARGET GROUPS

Service contracts are most appropriate where large plant and equipment are being used to service tenants.

POSITIVE AND NEGATIVE ASPECTS

The positive aspects of service contracts are:

- that they can reduce energy costs
- the service provider commonly provides capital finance for new plant and equipment
- local authority management are free to focus on core activities
- financial risk and responsibilities are passed to the private contractor
- revenue support may be available.

SERVICE CONTRACTS AND THE PFI – DBFO APPROACH

The negative aspects of service contracts are:

- they can be complex and lengthy to set up and will require a range of expert advice
- it will be important to ensure accountability for good levels of service through the contract terms
- there can be adverse impacts on local authority staff
- future revenue implications.

SOURCES OF FUNDING

Most service providers are specialists, who will provide capital finance for new equipment or will work in partnership with a financial institution to provide the finance. Support may be available from central government towards the local authority's contributions, through the periodic fee, to the providers' investment costs.

TIMESCALE

This is very dependent on the scale of the project. A small-scale scheme with a straightforward tendering process could be put in place in a few months. A large-scale scheme with multi-stage tendering might take up to a year or more to set up.

REPAYMENT

The possible arrangements for repayment on service contracts are very varied and can be through a specific service charge in addition to rent or a direct charge for heat or electricity.

SCALE ISSUES

Typically service contracts might be used for services provided to a complex of flats, ie for medium-scale investment projects.

LEGAL CONSIDERATIONS

The compliance of DBFO contracts with the PFI rules in the Capital Finance Regulations and with value for money criteria are a central consideration (see paragraph 14.1.1b). The tendering process should comply with the European Commission Procurement Rules.

Any transfer of HRA land as part of a contract would need approval from the Secretary of State.

CONSULTATION

If standards of service are unaffected by the issuing of a service contract it may be unnecessary to consult tenants. It is the local authority's own employees who are likely to be most affected by a new service contract with a private sector provider. In some cases jobs will be threatened, though there is always the possibility of transferring staff to the new service provider where there is a substantial long-term contract.

10 ENERGY SERVICES COMPANIES

GENERAL DESCRIPTION



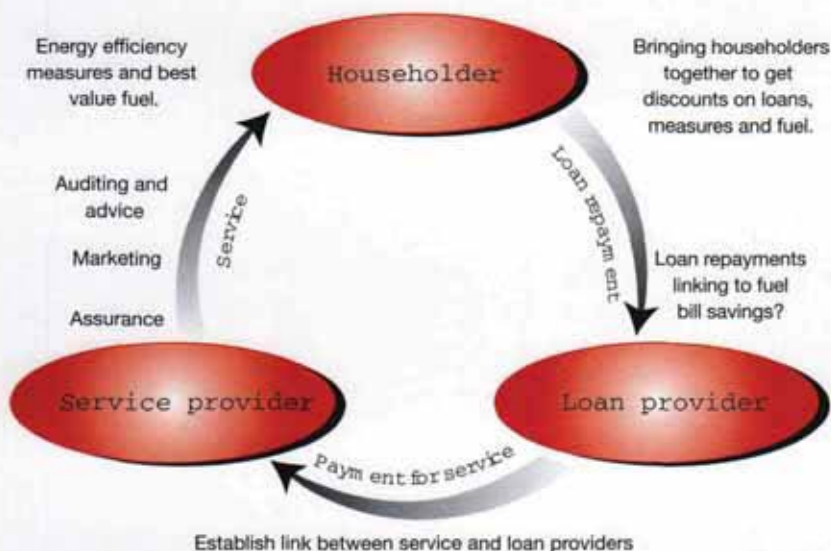
The idea of an energy services company (ESCO) is relatively new to the UK. The concept has been working successfully in the United States and mainland Europe for some years. The experience in Britain has generally been limited to the provision of community heating schemes, sometimes incorporating combined heat and power (CHP), primarily in the social housing sector. However, these schemes have tended to be limited to a supply of cheap heat and the provision of heating systems within the home, with little conscious regard for the principles of energy efficiency.

There are a number of definitions of ESCOs. For the purposes of this Report we shall adopt the definition used by the EST:

'An energy services company (ESCO) can be broadly defined as a company providing a complete energy service, ie combining energy supply with the provision of measures concerned with efficient use.' (Energy Saving Trust, 1998)^[9].

ESCOs can exist in many different forms and relate to landlords and tenants in different ways

CHP is dealt with in other sections of this Report (see case studies 7, 8 and 10)



This section deals with ESCOs which are set up to deliver other services to the local authority and tenants which might include:

- energy supply such as gas or electricity
- end-use equipment such as central heating systems
- end-use efficiency measures such as cavity wall insulation
- auditing and/or advice to the householder
- capital finance for installation of energy efficiency measures.

In the social housing sector the relationship between the householder and the ESCO is not as straightforward as for homeowners. The main question is: who pays for the service provided by the ESCO? Is it the landlord through the HRA, the tenant through a service charge or fuel surcharge or central government through housing benefit, or some combination of these? These issues are explored at length in a report commissioned by the EST 'What price energy efficiency'^[10].

An ESCO can be area-specific, for example by being associated with one or more local authorities, or within a distinct area within the authority (in a similar way to many credit unions).

ESCOs are seen by some as the means by which low-income social housing tenants can gain access to the benefits of competition in energy supply. The ESCO would act as a broker purchasing gas or electricity on behalf of large groups of tenants.

The diagram illustrates the various types of relationships that can be established.

TARGET GROUPS

An ESCO could be set up to serve all tenants but most of the current initiatives in the public housing sector are placing emphasis on services to the fuel poor.

POSITIVE AND NEGATIVE ASPECTS

ESCOs for domestic housing are still being developed and the implications of energy market deregulation and capital finance changes under the PFI are currently unknown areas.

ENERGY SERVICES COMPANIES

'A new world for energy services?' (Owen and King, 1997)^[11], a report on research into the role and potential of energy services, is somewhat cautious about the future for ESCOs. Among the report's recommendations are that some form of intervention will be needed to encourage the ESCO concept and to encourage an energy efficiency element within such concepts. Local government could play a significant role in this intervention.

SOURCES OF FUNDING

Funding for ESCOs could come from a variety of sources that could be used individually or in conjunction with each other. Local authorities may be able to provide some core funding, utilise existing administrative systems and provide staff time to set up and run an ESCO.

Other sources of funding that local authorities could consider include the EST, fuel utilities, financial institutions, and suppliers and installers of measures.

A more cost-effective method may be to provide funding for an existing ESCO to work within the authority's area.

TIMESCALE

Depending on the size and scale of the proposed ESCO, it could be feasible to set up a scheme in a couple of months, providing the financial resources have been committed.

REPAYMENT

The issues relating to repayment are complex (see 'What price energy efficiency' (EST)). However, there are several routes for repaying investment, including:

- payments through the housing revenue account
- service charges to the tenants who are eligible for housing benefit
- fuel and power charges to tenants.

SCALE ISSUES

In theory, ESCOs could range in size from small community-based organisations, to large organisations operating on a regional or national basis.

LEGAL CONSIDERATIONS

At the time of going to press there are many legal technicalities still to be resolved, including whether or not local authorities can oblige tenants to accept long-term contracts with an ESCO.

There are significant implications for authorities should they wish to become second-tier suppliers of gas and/or electricity. The Supply Licences relating to gas and electricity, available from OFGAS and OFFER respectively, place onerous conditions upon any organisation wishing to enter this market.

CONSULTATION

Working in partnership with an existing ESCO will require significant consultation with councillors and tenants, who will need to feel confident in providing endorsement for one particular ESCO.

If the authority chooses to set up its own ESCO, early consultation with the council's legal and finance departments will be necessary, as will early negotiations with both suppliers and installers of energy efficiency measures and potential fuel suppliers. It may also be appropriate to consult with a company specialising in providing marketing services to review the most effective strategies for achieving the authority's objectives. Early consideration should also be given to how the authority will set up the administrative and sales information systems required to process what could be a very complicated multi-staged sales cycle.

In some cases the operation of an ESCO will require changes to tenancy agreements, for example if a new service charge is introduced. This will require detailed tenant consultation in order to obtain their agreement to the change.

11 STOCK TRANSFER

GENERAL DESCRIPTION

ST

This involves a local authority transferring its own housing stock to the control of a housing association or local housing company. The transfer of control has the effect of removing local authority expenditure controls from investment in that stock.

Housing associations are usually formed as Industrial and Provident Societies regulated by the Registrar of Friendly Societies. They also have to register with the Housing Corporation if they want access to public funding. They operate on a 'not-for-profit' basis to provide social housing.

CASE STUDY 11 *Page 38* Penwith Housing Association

Local housing companies also have to be registered with the Housing Corporation if they want access to public funding, and they operate on a 'not-for-profit' basis^[12]. They can be incorporated in a number of ways:

- as a charity
- as a company limited by guarantee
- as a company limited by shares.

They usually have representation from the local authority, tenants and independent members on the board, and are always privately influenced companies.

When considering the transfer of housing stock, it is commonly the case that the transfer includes proposals by the new landlord to carry out refurbishment or improvement, or indeed major repairs to tenants' homes.

It is usual for there to be negotiations between the tenants' representatives, the local authority and the new landlord, facilitated by external consultants, to set out specific conditions relating to the transfer. It would be possible to include conditions relating to energy efficiency measures.

The new landlord could be required to:

- educate the tenants about the overall balance between fuel costs and rent, and how this relates to the total running cost of the dwelling

- advise tenants on energy conservation
- incorporate specific energy measures into any works proposed
- achieve a certain average energy rating within a given period.

Such conditions would be described as 'undertakings' in the transfer agreement.

TARGET GROUPS

Large-scale voluntary transfers have been more common in smaller shire districts but this mechanism is open to all local housing authorities. Although the objective of a transfer may be to tackle under-investment in the poorest stock, it is likely that a transfer would comprise a package of poorer and better stock to ensure the financial viability of the new landlord and to attract the private investment for improvements.

Transfers of stock can be an element of bids for Estate Renewal Challenge Funding and this is another way of underwriting the transfer of housing stock in poor repair.

POSITIVE AND NEGATIVE ASPECTS

Positive aspects of large-scale voluntary stock transfer include:

- the ability of the new landlord to use private finance and to recycle capital receipts for improvements to the housing stock
- more latitude in setting rents without being subject to central government controls (subject to any guarantees in the transfer agreement and conditions imposed by the Housing Corporation).

Negative aspects include:

- loss of tax exemptions (such as VAT) enjoyed by local authorities
- likely to result in some job losses among local authority staff providing services to the housing department
- possible increases in rents
- the resources needed to implement a stock transfer.

STOCK TRANSFER

SOURCES OF FUNDING

Once established, housing associations and local housing companies are able to access private finance from all the main financial institutions. Large-scale voluntary transfers are generally attractive to the funding markets but the new landlords will need to prove their viability through the production of detailed business plans.

TIMESCALE

A large-scale voluntary transfer will require a considerable amount of officer time to obtain the relevant consents, carry out tenant consultations, stock condition surveys, valuations of the housing stock, establish the legal structure of the new housing association or local housing company, drawing up the transfer agreement, and producing a business plan, etc. The whole process usually takes in excess of two years.

REPAYMENT

Lenders will wish to secure finance against the value of the transferred stock. The valuation will be on an existing use basis, ie the sum that would be paid for the stock by another registered social landlord.

Repayment of the investment would be based on rental income as projected in the business plan.

SCALE ISSUES

Voluntary transfers are generally limited to under 12 000 dwellings to any single housing association or local housing company. This indicates that this is a mechanism that could be used to tackle under-investment in energy efficiency on a large scale.

LEGAL CONSIDERATIONS

A local authority can set up a local housing company or a housing association using its financial powers under Section 24 of the 1988 Housing Act. It is obliged under Section 25 to obtain the prior consent of the Secretary of State to give such financial assistance.

Before a transfer of more than 500 dwellings can go ahead, local authorities are obliged to gain a place in the Annual Disposals Programme (as set out in the 1993 Leasehold Reform, Housing and Urban Development Act s135).

CONSULTATION

Large-scale voluntary transfers need full political backing from elected members, preferably with all-party support and the commitment of senior officers.

Detailed tenant consultations are a statutory requirement and in most circumstances a ballot is held before a large-scale voluntary transfer can go ahead. More specifically, it will be necessary to ensure that tenants back any proposals for improved energy efficiency standards if this will have an impact on rent levels.

Local authority staff will need to be persuaded that their jobs are not threatened by the transfer and, if they are, that they will receive adequate redundancy payments. Most housing department staff are likely to be transferred to the new housing association or housing management company.

12 LOOKING TO THE FUTURE

COMPETITION IN DOMESTIC ELECTRICITY AND GAS SUPPLY

Over the period April 1996 to September 1998, competition in domestic electricity and gas supply is being phased in over England, Wales and Scotland. This will allow domestic consumers to choose their electricity and gas supplier. Potentially, competition should lead to lower fuel prices and more efficient services.

These changes open up new opportunities for energy efficiency investment by energy supply companies.

What do energy supply companies want from the social housing sector?

The new energy supply companies want to establish a customer base of reasonable size, but their potential profits from supplying energy are small. Consequently, they want to secure that customer base over time to increase profitability.

Local authorities and housing associations have, in their tenants, a large potential market for the new suppliers. Already consortia of local authorities and housing associations are being formed to 'broker'

cheap energy supply on behalf of their tenants and to obtain investment in their housing in return for long-term (typically 15-year) supply contracts.

One consortium with a total of 100 000 dwellings is seeking £3 million of investment in energy efficiency measures in return for a 15-year supply contract with a gas company.

LEGAL ISSUES

There are legal implications for such arrangements between social housing landlords and energy supply companies. The key issues concern consumer and competition legislation.

Are landlords sacrificing their tenants' consumer rights by locking them into a supply contract with one company? The range of contractual terms is currently being investigated by a number of energy supply companies, local authorities and housing associations.

It could also be argued that such arrangements are anti-competitive and could be challenged under European Union competition legislation.

13 CASE STUDIES

Throughout this Report the following abbreviations are used to indicate the various mechanisms for implementing energy efficiency measures. The abbreviated form will assist the reader in cross-referencing between the early sections of the Report and the case studies that illustrate the success of the strategy.

L	- LEASING	E→T	- SELLING ELECTRICITY DIRECT TO TENANTS
RL	- RENT LINK	T+JV	- TRADING AND JOINT VENTURE COMPANIES
CU	- CREDIT UNIONS	SC	- SERVICE CONTRACTS
UL	- UNSECURED LOANS	ESCO	- ENERGY SERVICES COMPANIES
BD	- BULK DISCOUNTS	ST	- STOCK TRANSFER

1 VAILLANT BOILERS LTD - 'RELEASE'

Description

L This innovative operating leasing scheme provides whole-house turnkey gas central heating installation for public-sector housing. Vaillant are promoting the scheme to local authorities under the brand name 'Release'.

As well as providing the central heating equipment, the scheme also provides the necessary finance and operating lease packages.

Installation is undertaken by contractors approved by the local authority working directly for Vaillant. This is necessary to ensure that title to the goods never passes to, or via, the local authority and therefore ensures the scheme qualifies as an operating lease.

Longriver Ltd is the leasing company, and organises the financial aspects of the installations. The company buys the goods from Vaillant and then leases them to the authority. At the end of the lease period (usually 10 years or more), it can be extended or the equipment can be removed. The new rental would be based on the value of the assets at that time.

The key to the success of the scheme is that the boilers and radiators are designed to be readily removable. The scheme is intended to qualify as an

operating lease and so, under a concession in the capital finance system, may be funded out of the Housing Revenue Account (HRA), rather than from capital resources.

Opportunities and barriers

This scheme provides a way of using the operating lease concession in the capital finance regulations, to install modern energy-efficient gas central heating systems in local authority housing.

Status

The Release scheme is currently being implemented by Stoke-on-Trent City Council with hundreds of installations either completed, underway or planned.

Lessons learnt

- It is essential to liaise with tenants and keep them informed of what is planned.
- All departments should be involved at an early stage, requiring cooperation and input from auditors, legal and financial departments, as well as the housing department.
- It is important to set up clear, simple systems so that everybody understands their role.

Contact

Housing Group
Stoke-on-Trent City Council
PO Box 634, Civic Centre, Glebe Street
Stoke-on-Trent ST4 1RJ

CASE STUDIES

2 HEATLEASE – CREWE AND NANTWICH BOROUGH COUNCIL**Description**

Crewe and Nantwich Borough Council has implemented a leasing scheme for part of its housing stock to install energy-efficient electric storage heaters and immersion heaters, running on the Economy 7 tariff.

The leasing arrangement is for a period of 10 years with a residual value of 10%, and the authority has the option to extend the arrangement at the end of the 10-year period.

The authority undertook a consultation exercise with tenants to explain the scheme. All tenants benefiting from this scheme have signed a modification to their tenancy agreement, acknowledging that the equipment is owned by the leasing company, and will be leased to the council and paid for by allowable rent increases within the parameters set by central government.

The scheme was managed by MANWEB, with equipment supplied by Creda. Leasing arrangements were provided by Asset Finance and Management (AFM) and RoyScot Leasing.

Opportunities and barriers

The potential problems with tenants exercising the right to buy have been tackled by giving tenants the following options under the terms of the lease agreement:

- request the equipment is removed at the Council's expense
- request to be given notice of the terms for the sale by the owner of the equipment
- request that they be given notice of the terms, including rental amount, under which they may continue to use the equipment.

In order to avoid paying a penalty to the leasing company in such circumstances, the authority may

have to remove the equipment from the home and install it in another property, thus continuing with the lease.

Another issue is that the authority may need to fund the installation of replacement hot water storage tanks, and in some instances this may involve additional expenditure if the space where the existing tank is situated needs to be enlarged.

Status

Two phases of the programme have been completed, one in 1996 and one in 1997. Each has provided efficient electric storage heating to about 100 council properties with budgets in each phase in the order of £150 000. A third phase of a similar scale is due to commence shortly.

Lessons learnt

- By undertaking a number of small-scale schemes a local authority can minimise the financial restrictions placed upon it by the HRA, and can pay for improvements out of the annual allowable increases in rent.
- Deals where a package of equipment and leasing arrangements are linked together may require some analysis to find out whether the individual constituent parts offer the best value. It may be more transparent to split the contract for the supply and installation of the equipment from the leasing contract.
- Larger projects broken up into smaller elements can sometimes be completed more effectively with a simple tendering process and can avoid the delays associated with tendering of large contracts.

Contact

Crewe and Nantwich Borough Council
Borough Treasurer's Division, Delamere House
Delamere Street, Crewe, Cheshire CW1 2JZ
Tel: 01270 537777

CASE STUDIES

3 'RENTLINK' – MENDIP DISTRICT COUNCIL**RL****Description**

The notion of linking rents to energy efficiency in the housing

stock was first discussed in 1991 during the development of the Mendip District Council's Green House Bid. By 1993, energy efficiency measures had been augmented and promoted to the heart of the Council's stock management strategy. In April 1997 the rent points scale for all dwellings was modified to include a component reflecting the energy efficiency of each home.

At the outset, tenants and councillors were consulted to ascertain their opinion of the proposed programme. Around 350 tenants, occupying mostly unimproved properties, were given a list of improvement options and asked to prioritise them. The overwhelming opinion was in favour of affordable warmth, and provided a mandate to divert maintenance programme money into upgrading the energy efficiency of the entire stock. This result reflected the fact that the existing programme of full modernisation reached only around 50 homes per year, while the programme which prioritised affordable warmth coupled with Rentlink would provide significant benefits in the shortest possible time to the greatest number of tenants.

A second questionnaire, sent to 10% of all tenants, explained the principles of the proposed Rentlink programme and asked tenants if they were in favour of its adoption. The replies established that a significant majority approved.

Prior to the introduction of the Rentlink scheme, the energy efficiency of each property was assessed and incorporated into a stock database. Rents were modified in accordance with the results so that tenants occupying houses with a higher efficiency had their rents increased slightly, while those in lower efficiency houses had rents reduced slightly. The net effect at the time of introduction was to produce no change in rent revenue to the council.

Subsequently, where energy efficiency improvements have been made to a property, its energy efficiency is reassessed and the rent is increased in line with the formula established under the Rentlink scheme.

These rent increases provide an increased revenue stream, which could provide investment for energy efficiency measures in unimproved properties.

A stock profile provided the information from which works programmes are developed, targeting as higher priority for improvement those homes with poor energy efficiency.

Opportunities and barriers

Developing the scheme involved liaison between all staff affected by the programme, drawing upon their opinions, support and specialist knowledge. This included maintenance staff who might have no background in energy efficiency measures, as well as staff involved with administering the rent policy and responding to tenants' questions arising from the programme. The gradual introduction of the concept was also an advantage, the concept having first been suggested and discussed in 1991.

The legislation surrounding the setting of rent levels and the ceiling on rent rebate subsidy meant the points system had to be established before energy efficiency improvements could be reflected in the rents (see paragraphs 14.1.2 and 14.1.3). The original rent points scale, introduced in 1989, contained certain elements that were adjusted to reflect improvements to the property, but the adjustment was an arbitrary fixed amount. These elements were replaced with a sliding scale that more fairly represented the benefit of improvements. Other elements of the rent points scale were left unchanged.

Status

Since the introduction of energy efficiency Rentlink in April 1997, improvements have been carried out to over 700 homes and rents set in April 1998 will reflect this. There is an ongoing programme of energy efficiency improvements, mostly incorporated with other works, and from April 1998 the rent charged for the improved homes will be adjusted at regular intervals during the financial year.

Lessons learnt

- Mendip's stock database was built up from a number of sources. If a housing stock is due for a large-scale survey, considerable time saving could

CASE STUDIES

probably be achieved if the necessary energy data could be gathered at the same time, having first established the format of data needed for the energy assessment software.

- When the new points scale was brought into effect, a few problems arose from other aspects of the rent points scale which had been left unaltered but where points had been allocated incorrectly due to wrong initial information (eg wrong number of bedrooms). This could have been avoided if all tenants had been sent

details of their rent points when the original scale was introduced in 1989. However, the majority of queries were from tenants in homes with poor energy efficiency, questioning whether their rent reduction was correct.

Contact

Housing Client Unit, Mendip District Council
Cannards Grave Road, Shepton Mallet
Somerset BA4 5BT
Tel: 01749 343399

4 SAVING AND LOAN SCHEME - CAMBRIDGE HOUSING SOCIETY

**Description**

The Cambridge Housing Society Ltd (CHS) has established a savings and loan scheme for its tenants called 'New Horizons'. The scheme is similar to that of a credit union in that very small amounts can be saved and borrowed. The first loan is limited to twice the amount of money saved, with a maximum of £500.

The novel aspect of the scheme is that it was established in conjunction with the Cambridge Building Society. CHS has deposited £25 000 with the building society and this is combined with tenants' savings to form a pooled fund that attracts an enhanced interest rate.

CHS is responsible for running the scheme under an agreement with the building society. The New Horizons Action Group, made up of CHS tenants, CHS staff and building society staff, recommends policies and procedures.

Opportunities and barriers

This scheme has some advantages over a credit union in that:

- Cambridge Building Society has 18 branches in the area where transactions can be made

- it will be possible to adapt policies and procedures to meet the needs of the users, unrestricted by the legislation that controls credit unions.

The New Horizons scheme offers the size of low-interest loan that would be suitable for the purchase of energy-efficient appliances.

Status

The New Horizons scheme was launched in September 1997.

Lesson learnt

- Build on existing relationships rather than going to the trouble of developing something new.
- Look to local institutions and organisations to develop schemes as partners. They may be more flexible than larger national bodies. New schemes will help enhance the business of the partner organisation.
- Adaptability and lateral thinking were the key to developing this innovative idea and to overcoming many of the problems and obstacles.

Contact

Cambridge Housing Society
1A Fortescue Road, Cambridge CB4 2JS
Tel: 01223 357600

CASE STUDIES

5 LEEP - CREDIT UNION LOANS FOR CFLs

**Description**

This small project was developed by the Lothian and Edinburgh Environmental Partnership (LEEP), working with the Lothian Region Credit Union Development Agency, to set up a loan scheme for CFLs with a number of existing and potential credit unions in Edinburgh and the surrounding area.

Participating credit unions agreed to provide loans to their membership for the purchase of CFLs. The participating credit unions also distributed information to their membership promoting these loans and a retail service run by LEEP. LEEP had made a bulk purchase of CFLs and passed the price discounts to the credit union members.

The scheme offered a range of CFLs with different types of fitting and wattage. From earlier monitoring research, LEEP had identified that it was important to demonstrate the CFLs in the home for maximum cost-effectiveness. This allowed the potential purchaser the opportunity to try various options of style and wattage, ensuring a high level of customer satisfaction and utilisation of the lamps. This also helped achieve one of the original objectives of the scheme, which was to ensure that repayments on the loans would be more than offset by electricity savings from the beginning.

The credit unions also felt it appropriate to market loans for other reasons, so that where a member took out a loan for another purpose such as a holiday, they would also be encouraged to take out a slightly larger loan in order to purchase CFLs. As the CFLs would save the borrower money, their ability to repay the entire loan would be increased.

Opportunities and barriers

This was a small project dealing with a fairly low volume of loans. The same approach could be extended to cover the purchase price of larger energy efficiency appliances, products and services. The credit unions were keen to support this scheme for a number of reasons:

- energy efficiency helps their 'green' credentials
- It is a simple and effective add-on to their existing credit union services
- It helps members save money
- there are some tax advantages for credit unions from encouraging a constant pattern of loans, albeit small amounts, to reduce the amounts on deposit
- It was seen to reduce the seasonal nature of loan take-up, which peaks at Christmas and during holiday periods.

Status

The scheme successfully provided CFLs to several hundred credit union members.

The service is being continued on an 'ad hoc' basis without any publicity, as LEEP no longer provide staff resources to work with client groups.

Lessons learnt

- The concept works well but does need considerable development and preparation time to succeed.
- A wider range of energy efficiency services may be more appropriate, and justify the provision of staffing resources.

Contact

Lothian and Edinburgh Environmental Partnership
Bonnington Mill Business Centre
72 Newhaven Road
Edinburgh EH6 5QG
Tel: 0131 555 4010

CASE STUDIES

6 FRIDGESAVERS – NATIONAL BULK DISCOUNT SCHEME**Description**

Fridgesavers is a national scheme developed and managed by LEEP. The scheme has been developed in partnership with the EST and is funded by the SoP programme.

The scheme is targeted at low-income households and is designed to provide them with efficient fridges to replace their old and inefficient model. The old fridge must have an integral ice box and belong to the householder. In addition, the householder has to be in receipt of one or more of nine qualifying benefits.

The householder applies for a new fridge by completing a form, which includes details about their existing fridge. The questionnaire is based on several years of appliance-based research carried out by LEEP. Returned application forms are entered on the Fridgesavers database which generates a points score for each application and determines whether the fridge is in a poor enough condition to justify replacement.

A national carrier is instructed to arrange for delivery and installation of a new fridge and removal of the old fridge. The old fridge is disposed of with the appropriate recycling of CFCs. In this way the project also significantly improves the nature of the second-hand fridge market by taking these very inefficient models away from potential reuse.

The householder has to make a contribution of only £25 towards the cost of the new fridge, which they should recoup in the first year of using the new energy-efficient appliance. This estimated saving is based on earlier monitoring.

The overall cost of providing these new appliances has been significantly reduced by a bulk purchasing arrangement through public tendering. Twenty-five thousand fridges were purchased

initially, reducing the unit cost considerably from the normal retail price of £120.

Opportunities and barriers

In some instances the householder contribution is met from other sources. For example, some social landlords are paying the £25 contribution for their tenants who qualify for the scheme. The modest householder contribution could also be obtained as a loan from a credit union.

Fridgesavers' estimates, based on monitored samples, demonstrate that households should save at least £30 a year on their electricity bills. Fridgesavers are able to provide data showing the number of fridges supplied by the scheme, sorted by postcode area.

Status

The Fridgesavers scheme was launched nationally in September 1997 after successful pilots in Edinburgh and London. The scheme was initially promoted through regional seminars held in each public electricity supplier (PES) area. The initial target was to distribute 25 000 fridges by March 1998. Early indications are that the scheme will be oversubscribed and an extension is expected. Several of the participating PESs have expressed an interest in expanding the scheme in their areas.

Lessons learnt

- It is possible to assess the efficiency (or inefficiency) of appliances on a remote basis, and by involving the applicant in the process.
- Volume purchasing has also brought down the unit cost of these appliances, and has enabled a flat charge to be negotiated with a national carrier, irrespective of where the applicant lives on mainland Britain.

Contact

Lothian and Edinburgh Environmental Partnership
Bonnington Mill Business Centre
72 Newhaven Road
Edinburgh EH6 5QG
Tel: 0131 555 4010

CASE STUDIES

7 SELLING ELECTRICITY TO TENANTS - ST PANCRAS HOUSING



Description

St Pancras Housing (SPH) provides a social housing service through its housing stock of nearly 3000 units in London and Hertfordshire. SPH has a 'green policy' which aims to ensure that its housing stock is built and maintained in a cost-effective and energy-efficient way. In keeping with this policy, SPH has installed a combined heat and power (CHP) unit to serve St Richard's House and the adjacent Hillwood House in London. The novel aspect of the scheme is that the improvement is partly paid for by electricity sales from the CHP unit direct to the tenants. Sales of electricity produce an income of £45 000 per year.

The 95 dwellings, SPH offices and commercial units originally covered by the scheme had individually metered electricity supplies from London Electricity. With the installation of the CHP system, SPH took over responsibility for supplying electricity to both the commercial and domestic tenants. Electronic meters linked to a computer billing system in SPH's offices replaced the old meters. Tenants now receive their electricity bills direct from SPH. Any additional demand for electricity, over and above that supplied by the CHP unit, is met by a single London Electricity supply to SPH.

Opportunities and barriers

This pioneering arrangement allows both domestic and commercial tenants to benefit from a significant reduction in electricity costs. In a ballot, the tenants decided to take their savings by having no standing charge. This means that they still have a strong incentive to reduce their energy costs.

Tenants can pay for their electricity by quarterly bill or standing order and SPH have also installed a cash deposit machine to enable small cash payments. This range of payment methods opens

the possibility of arrears and debt collection problems. A similar scheme being operated by North British Housing Association in Newcastle is utilising prepayment metering technology to prevent debt problems occurring.

It was necessary for each tenant to indicate in writing that they no longer wished to have their electricity supplied by London Electricity, effectively ending their 'deemed contract' for that supply. Tenants needed to be advised about this requirement as part of the overall tenant consultation process.

SPH had to purchase the electricity distribution cables serving the site from London Electricity at a cost of £10 000. The housing association then had to rationalise the incoming supply points. Of the total CHP scheme cost of £267 000, the overall costs of modifying the electrical services and installing the remote metering system were £100 000. (The scheme was supported by a residential CHP programme grant of £45 000.)

Status

The scheme has been operating successfully since August 1995.

Lessons learnt

- A social landlord should seek guarantees from its equipment supplier to minimise down time on the CHP unit. Such guarantees would normally be part of a maintenance agreement. Extended downtime could result in having to make costly purchases of electricity from another electricity supplier.
- Careful assessment of current energy management practices and the available tariffs for top-up and stand-by electricity supply will assist in both the correct sizing of the CHP unit and deciding on the optimal running times.

Contact

St Pancras Housing, Technical Services Department
110 Eversholt Street, London NW1 1BS
Tel: 0171 209 9211

CASE STUDIES

8 COMBINED HEAT AND POWER –



NEWCASTLE CITY COUNCIL

Description

Newcastle City Council augmented an old coal-fired block heating system serving the Queens Court Flats with a gas-fired CHP unit. Equipment supplier finance and a grant from the Combined Heat and Power Association (CHPA) funded the scheme.

A CHP unit with an electrical output of 100 kW and thermal output of 230 kW was installed in 1994. The unit provides heat to 280 dwellings in five separate five-storey blocks of flats. The supplier of the unit, CPS Northern provided the capital investment, installed the unit and now operates and maintains it. The supplier is recouping its investment and costs through a 10-year electricity supply contract with the council. The council purchases the gas for the unit and sells the heat to its tenants.

The contract with the City Council specifies service standards and guarantees performance in terms of the number of kilowatt hours of energy generated. Failure to meet these standards results in the supplier having to provide a quantity of free electricity.

Opportunities and barriers

Prior to the scheme being adopted, the Council's energy unit compared the cost of this arrangement with a direct capital purchase. Although it would have been cheaper to go for a direct purchase, there was a clear advantage in retaining the capital investment to use elsewhere.

The heat from the unit is paid for by a fixed service charge on rents paid by tenants. The specific costs of the heat produced by this CHP unit is not passed to the tenants of the Queens Court Flats. Newcastle City Council has a policy of pooling the costs of its entire district heating schemes and charging all the tenants on these schemes the same flat rate for their heating. Heating costs to tenants have not increased since 1987 because of the continued efforts to improve the efficiency of the community heating systems.

Status

The scheme has been operating successfully since 1994.

Lessons learnt

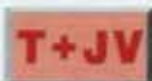
- Newcastle has developed many CHP projects over the years and the general lesson learnt is that the base energy equations and the sizing of the CHP unit need to be very carefully calculated to maximise the efficiency of the unit.
- Demand should be calculated to meet 100% of the summer base load for heat and power.
- Output performance and maintenance costs need to be justified over the period of the operating contract, and should be built into the original agreement.
- The siting of the unit needs to be carefully looked at in order to minimise noise disturbance to residents.

Contact

Newcastle City Council
Newcastle Energy Centre
2/10 Arbold Terrace
Newcastle Upon Tyne NE2 1BZ
Tel: 0191 281 1303

CASE STUDIES

9 GODIVA WINDOWS LTD - COVENTRY

**Description**

Godiva Windows Ltd is a joint venture between Deceuninck UK Ltd and Coventry City Council. The company is established as a trading company manufacturing and, in some cases, installing PVC-U double glazing. Half of Godiva's business is with Coventry City Council and the other half is with housing associations, other local authorities and schools.

The company has its origins in Coventry City Council's direct labour organisation (DLO). Some years ago, the City's housing department decided to embark on a large-scale window replacement programme covering all 24 000 dwellings in its housing stock. It was decided that the most effective means of implementing the programme would be to set up a manufacturing and installation company as part of the DLO. The company operated for some years, employing between 60 and 70 people. With the prospect of the City's own window replacement programme being completed, it was decided to explore other business opportunities and offer services to neighbouring local authorities.

However, the legality of this development was challenged by the District Auditor. As a result, the City Council split its PVC-U windows company, by retaining its own installation teams within the DLO but also setting up Godiva Windows Ltd as a joint venture to carry out the manufacturing and installation for other customers. The City Council has a 20% stake in the new company with the remaining 80% being held by Deceuninck UK Ltd.

Godiva Windows Ltd has a 'Schedule of Rates Contract' for a period of five years to supply all the

PVC-U windows for Coventry City Council's window replacement programme.

Opportunities and barriers

The creation of Godiva Windows Ltd enabled the Council to secure 25 jobs, which otherwise would have been lost, in manufacturing the windows.

Godiva Windows generates substantial profits from which the Council benefits in proportion to its equity in the company. This money is available for capital investment in the Council's housing stock.

Following attainment of third party quality approvals, Godiva Windows Ltd is now able to provide both manufacturing and installation services to whomever it wishes. This generates further profits to be shared by the Council, while ensuring that the price of its windows is very competitive.

Status

Godiva Windows Ltd has been operating successfully since 1995 and is continuing to expand its customer base.

Lessons learnt

- Coventry City Council has shown that it is possible for a local authority to be enterprising in tackling its energy efficiency improvements.
- The authority has found a creative solution that provides a good service to tenants, and generates income for future investment in the housing stock.

Contact

Godiva Windows Ltd
Little Heath Industrial Estate
Old Church Road
Coventry CV6 7DT
Tel: 01203 581151

CASE STUDIES

10 ENVIROENERGY LTD - WASTE-TO-ENERGY
CHP SCHEME - NOTTINGHAM**Description**

EnviroEnergy Ltd is a joint venture company formed in 1995 by Nottingham City Council and Energy and Technical Services Group plc (ETS) to manage Nottingham's existing CHP and community heating scheme. The main energy source for the scheme is the Eastcroft waste-to-energy incinerator run by WasteNotts Ltd (a private company wholly owned by Yorkshire Environmental, which is part of Yorkshire Water plc) with back-up provided by conventional gas boilers managed by EnviroEnergy at its London Road Heat Station (LRHS).

Electricity is generated by steam turbines at LRHS, managed by EnviroEnergy and sold to East Midlands Electricity plc for distribution through the grid. The heat from this plant is provided to:

- 3600 council-owned homes
- 520 housing association homes
- 700 privately owned homes
- commercial customers, including two large shopping centres, a hotel, council buildings, government buildings, and university buildings
- a separate steam supply to a large pharmaceutical company.

Most of the local authority housing and all the housing association properties served by the community heating scheme are on the St. Ann's Estate.

The formation of the joint venture company was a response to a whole series of problems including litigation from domestic customers (as a result of technical problems with the original evaporation and volume heat metering), large arrears problems with domestic customers (running to cumulative debts of around £1 million), and under-investment in the infrastructure. The new joint venture company has taken over responsibility for the existing scheme, and is now, with the City Council, investing heavily in the scheme.

Opportunities and barriers

The opportunities provided by the joint venture company were realised through a detailed assessment of problems and issues. The decision-making process and the development of the joint venture company can be broken down into a number of stages:

Stage 1 - Doing the groundwork

This included the following actions by the City Council:

- an options appraisal of the whole scheme in conjunction with consumers' representatives which resulted in a decision to upgrade the community heating scheme
- an assessment of possible management arrangements for the CHP/community heating scheme which resulted in a decision to opt for a joint venture company
- an analysis of the public sector finance constraints which could limit the development potential
- an assessment of the overall social and environmental problems on the St. Ann's Housing Estate, resulting in a decision to go for a complete refurbishment of the estate
- an extensive tenant consultation process addressing in particular the issues of payment, billing and affordable warmth.

Stage 2 - Involving a private sector partner and the formation of a shadow board

ETS became involved with the City Council in March 1994 and provided legal and financial advice on the structuring of the company and addressing the problem issues, to make the proposed company a viable, ongoing concern.

A 'shadow board' was formed, with members from the City Council and ETS, with responsibility for a full technical, economic and legal evaluation. Working groups addressed subjects such as the legal framework for the new company; consolidating and extending the heat supply business; and evaluating the commercial and contractual risks.

The costs of developing the new company were estimated at £235 000, of which the major part came from the private sector.

CASE STUDIES

Stage 3 – Business plan

The business plan provided a financial analysis of a number of scenarios against stated assumptions. The base case showed poor returns and zero dividends so it was clear that the business would have to be expanded and efficiency improved. However, more favourable scenarios were formulated that assumed some expansion of the business and reductions in both fixed costs and energy costs. A convincing case was presented that projected an internal rate of return on investment in excess of 10%. An important part of reducing the exposure to debt and arrears from domestic customers was the inclusion of new electronic heat metering technology with a prepayment facility.

At this stage the split in expenditure was made explicit, with the City Council retaining the responsibility for the investment to improve the 'internals' of the local authority housing. These improvements included pipes, radiators with thermostatic radiator valves (TRVs) and cylinders to replace the old warm-air units, external insulation and double glazing (much of this investment came through Estate Action Funding).

EnviroEnergy, using finance provided by ETS, took responsibility for the expenditure on boiler plant, distribution mains, meters and future investment in the community heating scheme. This finance came in the form of a tax efficient 'subordinate loan' which is a form of quasi-equity finance. Maintenance of the system is also the responsibility of the company, thereby reducing the financial risk to the council.

Stage 4 – Formation of the joint venture company

In May 1996, EnviroEnergy became a registered private company limited by shares. The company leases the infrastructure of the CHP and community heating scheme from the city council. EnviroEnergy has a board made up of city councillors and representatives from ETS. It is set up as a 'private sector influenced company' and so the City Council has a 19.9% shareholding with ETS holding 80.1% of the shares. The general manager appointed by the company was a former District Housing Manager for the St. Ann's Estate. To protect consumer interest there is a shareholder agreement which ensures that

certain matters such as changing the nature of the business or altering prices outside the agreed formula, requires a unanimous decision. There is also a 'Consumer Charter' and an ombudsman has been proposed to deal with disputes.

Status

The company is operating successfully and is attracting new business, particularly from the commercial sector. It is generating an annual income of £100 000 for the City Council in the form of lease payments. At the same time it has removed £9 million liabilities from the City Council's balance sheet. The City Council tenants connected to the community heating scheme are benefiting from a low-cost, controllable heat supply (in 1996, 2.34p/kWh of useful heat as compared to 2.41p/kWh if provided through individual gas central heating).

Lessons learnt

- The involvement of private sector expertise was crucial in the scheme's financial viability.
- It took time to build up a trusting relationship between the public and private partners but this has been aided by practices such as 'open contracts' and having a consistent group of board members since inception.
- The local authority would have benefited from legal advice at an earlier stage to deal with the complex issues of company structures and contracts.
- Assessment of investment risk requires good information such as 'customer profiles' derived from rent and housing databases.
- Local authorities with comprehensive databases are, therefore, in a better position to attract private finance.
- As a joint venture, EnviroEnergy are able to take investment decisions based on the needs of shareholders.

The future for EnviroEnergy is likely to be as an energy services company, which might include services such as insulation measures in local authority housing.

Contact

EnviroEnergy Limited, London Road Heat Station
12 London Road, Nottingham NG2 3AB
Tel: 0115 955 6677

CASE STUDIES

11 STOCK TRANSFER -
PENWITH HOUSING ASSOCIATION**Description**

In May 1994, Penwith District Council transferred the

ownership and management of its housing stock of 3350 dwellings to the newly established Penwith Housing Association. Most of the housing staff previously employed by the Council became employees of the new housing association.

There were three main elements to the transfer agreement:

- tenants were promised that rents would be raised by no more than inflation plus 1% for five years
- there would be a major refurbishment programme over a period of five years
- there would be a programme to build 400 new homes for rent over a period of five years.

A survey of tenant satisfaction and housing needs conducted in the run-up to the transfer indicated that the main areas of dissatisfaction related to lack of heating installations and severe condensation.

Prior to the transfer, Penwith DC had adopted an energy policy that set targets for the improvement of the energy efficiency of the housing stock and for acceptable affordable warmth standards. Many of the elements of the Council's policy formed the basis for the energy policy of the new housing association. The main difference was that the housing association had the resources to implement its proposals.

The transfer of stock and the refurbishment programme attracted private finance from a consortium of financial institutions headed by the Nat West Markets. The loan was split into three tranches:

- £30 million for purchase of the housing stock
- £18 million for major repairs and interest costs
- £6 million for new development.

This has enabled the new housing association to invest £4.5 million per year in the refurbishment of the housing stock (the Council budget for refurbishment for 1992/93 had been only £1.5 million). Most of this £4.5 million is being spent on energy efficiency measures including:

- cavity wall insulation
- external wall insulation
- roof insulation
- double glazing
- new gas condensing boilers.

The inclusion of external wall insulation should be highlighted, as this is often considered to be a very expensive measure. It has been possible to include this measure as the consortium sees this as significantly improving the asset value of what were previously shabby and unattractive properties. The refurbishment programme therefore includes the external insulation of 1000 solid-wall dwellings.

The consortium generally puts a high priority on protecting the asset value of the housing stock, which means that there is an emphasis on maintenance and improvement. The consortium engages its own surveyors to scrutinise the management of the housing stock on an annual basis.

Opportunities and barriers

With constraints on local authority spending it would have been impossible to implement the Council's energy policy fully without substantial rent increases. The transfer has enabled the policy to be fully implemented with only inflation-linked increases in rents.

The transfer has been a generally positive change for housing staff, as they are now able to operate in an adequately financed regime.

The consortium of lenders paid Penwith District Council £30 million for the housing stock, most of which has been reinvested in new housing developments.

CASE STUDIES

Before the transfer could go ahead the condition of 20% of the stock was surveyed, primarily for valuation purposes. This took almost a year to complete.

The association itself has a programme to build 400 new houses. All new dwellings must meet the Housing Corporation's minimum development standards and most meet the recommended efficiency standard with NHER ratings of 9.5-10.

Tenants have often waited until their properties have been refurbished before taking up the 'right to buy'. This has resulted in a loss of improved dwellings from the housing stock.

During preparations for the transfer, it was decided that homes without central heating would not need central heating because of the mild climate. This has subsequently been seen as an error and it has resulted in tenants being asked to

accept a nominal rent increase if they want central heating.

Status

The refurbishment programme is well advanced and has been extended to eight years. Three hundred new properties have been built or are under construction.

Lessons learnt

There are now concerns among the housing managers that rent guidelines issued by the Housing Corporation will restrict their ability to set rents and this could upset their future investment plans. Other than this, the transfer has had very positive outcomes with the prospect of the whole stock being brought up to good energy efficiency standards.

Contact

Penwith Housing Association Ltd.,
67 Morrab Road, Penzance, Cornwall TR18 2QT
Tel: 01736 331799

14 SUMMARY OF RELEVANT LEGISLATION

14.1 SUMMARIES OF KEY LEGISLATION – LOCAL AUTHORITY HOUSING

References to statutory provisions are to the provisions as amended and in force from the 1st February 1998. This chapter provides a summary only and readers should refer to the full text of the statutory provisions for more detail.

The powers available to local authorities to improve energy efficiency within their own housing stock and amongst their own tenants are separate from their powers in relation to registered social landlords and other social housing landlords. They are therefore dealt with separately.

14.1.1 Controls on using private finance for capital expenditure and the private finance initiative (PFI)

The Local Authorities (Capital Finance) Regulations 1997 (Statutory Instrument Number 319) regulate the ability of local authorities to raise private finance for capital expenditure. References to sections are to the Local Government and Housing Act 1989.

14.1.1a The general rules Expenditure for capital purposes (section 40)

The definition includes:

- works to dwellings which substantially increase their useful life, their value or the extent to which they can or will be used
- the acquisition, installation or replacement of movable or immovable plant, machinery and apparatus
- any payments or financial assistance, eg grants provided to any person or organisation for the purposes described in the last two bullet points
- any investment in shares in any company or other body or the loan of any money to such a body.

Controls on sources of finance for capital expenditure (sections 41 and 42)

All expenditure must be borne by a revenue account in the financial year when it is incurred unless it is paid for from:

- a capital grant, eg from central government
- borrowing or a credit arrangement using cover credit

- useable capital receipts (ie money raised from sale of assets).

Credit arrangements (section 48)

A credit arrangement is defined to include:

- any lease of goods or land to a local authority
- any other arrangement for the provision of land, goods, services or other benefits to the local authority where at the end of any financial year the payments or other consideration still to be paid or provided by the local authority exceeds the amount of benefits the local authority had received under the arrangement at the beginning of that financial year. In other words, an arrangement where the local authority pays later for benefits received now.

There are some arrangements which are exceptions and do not count as credit arrangements. The important relevant exception is operating leases (regulation 20). These are leases of machinery, apparatus and similar assets where the residual value of the asset on termination of the lease is not less than 10% of its value at the commencement. The lease or arrangement must not provide for the transfer of the asset (or any amount equivalent to its value) to the authority or for the renewal of the lease at less than a market rent.

Where an arrangement is a credit arrangement, the local authorities defer payments until later years. Nevertheless, the capital finance rules require that in the year the arrangement is made, the local authority must use a prescribed formula to work out the current value of all the payments that will become due in later years (the 'initial cost'). They must account for all of this in the year the arrangement is made, either using capital receipts, revenue or some unused credit (LGHA, 1989 s50).

14.1.1b The Private Finance Initiative

The rules on private finance transactions are contained in the 1997 regulations as amended. The rules work by providing that local authorities do not need credit cover for credit arrangements that fulfil certain conditions. This enables local authorities to enter into these arrangements without using up their capital resources. In addition, where there are additional revenue costs arising from PFI schemes,

SUMMARY OF RELEVANT LEGISLATION

local authorities can apply for additional revenue subsidy in some cases.

For a full explanation, readers should refer to the revised edition of 'The Private Finance Initiative and local authorities – an explanatory note'. The implications of the amended regulations are as follows.

A private finance transaction can be for:

- the provision or making available of a house or other dwelling as long as the house or dwelling does not come within the HRA, or
- the carrying out of any works on HRA land as long as the works do not amount to the construction of a dwelling. Such works might therefore include the provision of a new heating and lighting system for HRA dwellings, including the construction of a boiler house on HRA land.

However, with regard to private finance transactions for the carrying out of works on HRA land, the DETR has at present agreed to provide revenue support, on a pilot basis, for only two transactions involving the installation of a new heating system for HRA dwellings. The DETR's current policy is not to make PFI credits available for private finance transactions for other works on HRA land.

There are four types of PFI schemes, three of which require that the transaction falls within the definition of a private finance transaction.

General design, build, finance and operate (DBFO) scheme (regulation 40)

The rules applicable to these schemes do not apply to the provision of HRA dwellings. They can apply to hostels for homeless people or people housed by a social services authority, and dwellings for employees (schedule 1). This kind of scheme is a credit arrangement (see above) where there is no initial cost, thus avoiding the need for credit cover.

To fall within this scheme, the following conditions must be fulfilled.

- The transaction must be a Private Finance Transaction, as defined.
- The transaction must pass the 'contract

structure test'. Essentially, this test requires that the minimum amount payable by the local authority for the services without there being a breach of contract by the contractor does not exceed 80% of what would have been the initial cost of the credit arrangement if credit cover had been required. This test is designed to ensure that the private contractor takes a significant element of the risk of low usage or poor performance.

DBFO building replacement scheme (regulation 41)

The rules applicable to these schemes do not apply to HRA dwellings but can apply to hostels for homeless people or people housed by a social services authority and dwellings for employees (schedule 1). This kind of scheme is a credit arrangement where the initial cost is reduced to notionally reflect the savings on running costs from replacing an old building with a new one. The building must have a corresponding purpose to the old one. The reduction in the credit cover required is the higher of 30% of the initial cost of the credit arrangement or a deduction based on the average annual expenditure on the same services as the contractor is now providing spent on the old building over five years.

To fall within this scheme, the following conditions must be fulfilled.

- The transaction must be a private finance transaction.
- A building must be replaced with another building that serves a corresponding purpose (schedule 1).
- The contractor must at least maintain, repair and operate the heating system of the building, including providing fuel.

DBFO additional building scheme (regulation 42)

The rules applicable to these schemes do not apply to HRA dwellings or assets but can apply to hostels for homeless people or people housed by a social services authority, and dwellings for employees (schedule 1). This kind of scheme is a credit arrangement where the initial cost is reduced by 30%.

SUMMARY OF RELEVANT LEGISLATION

To fall within this scheme, the following conditions must be fulfilled.

- The transaction must be a private finance transaction.
- The contractor must at least maintain, repair and operate the heating system of the building, including providing fuel.
- A new building must be provided.

Equipment replacement scheme (regulations 43-45)

The rules applicable to these schemes can apply to HRA dwellings or assets. A credit arrangement arises if the contractor recovers the value of the improvement or replacement from the authority over an extended period. The credit cover is reduced by reference to the local authority's average annual expenditure on operating, maintaining and repairing the old system over five years.

To fall within this scheme, the following condition must be fulfilled.

- The local authority must have let a contract for the repair or maintenance of a heating and/or lighting system which they previously managed themselves and the contractor improves or replaces the system.

There is no need for the transaction to be a private finance transaction.

14.1.2 Controls on revenue subsidies

14.1.2a The Housing Revenue Account

Under section 74 of the Local Government and Housing Act 1989, housing authorities are required to keep an HRA. All income and expenditure relating to housing held under Part II of the Housing Act 1985 must be credited and debited to that account and there are rules preventing the account being subsidised from the local authority's general funds. Under section 76 of the Act, the authority has a duty to budget to ensure that the HRA account does not have a debit balance at the end of any year.

14.1.2b HRA subsidy

The two primary sources of income for the HRA are rents and HRA subsidy. Each year in about

December, the government issues a determination (called the Housing Revenue Account Subsidy Determination) setting out the rules under which the HRA subsidy will be calculated for the year beginning the following April.

An important part of the total subsidy payable to a local authority is paid to reimburse local authorities for the rent rebates awarded to their tenants under the housing benefit scheme. The way in which this part of the subsidy is calculated, means that local authorities which increase rents after improvements may not always be fully reimbursed for any extra rent rebate they have to provide to tenants eligible for housing benefit because of the rent increases (see below).

If they are not reimbursed because subsidy is restricted, then to balance the HRA the authority has to find offsetting savings and/or additional income from elsewhere. In practice, the only extra income they can obtain is usually from tenants not eligible for housing benefit and rents may have to rise substantially.

In practice, improvements funded by rent increases may be viable only if additional Government subsidy is available for the higher rent charged to tenants on housing benefit.

14.1.2c Effect on HRA subsidy when rent is increased

Restrictions are placed on the amount of subsidy which a local authority may receive when it increases its rent.

Rent rebate subsidy limitation

The 1998-99 HRA subsidy determination places an absolute limit on the amount of subsidy available for rent rebates based on a guideline weekly rent set for the authority. Any local authority that has an average rent at or above that limit, will not obtain increased subsidy if it increases rent following improvements.

Modular improvements

These are schemes whereby tenants may choose extra or enhanced services, facilities or rights in return for an increase in rent or service charges. The rule applies where tenants in receipt of rent rebates:

SUMMARY OF RELEVANT LEGISLATION

- choose to be provided with any modular improvements offered under such a scheme
- choose to provide such modular improvements themselves whether or not in return for an award or grant from the authority
- are provided with modular improvements, on which they would have had a choice were they not in receipt of rent rebates.

Subsidy is not paid on the part of the rebate that is attributable to the cost of the modular improvements. But authorities are exempted from the rule if all of the following apply:

- the scheme was made available with the sole purpose either of improving the physical condition of the dwellings and/or of meeting the needs of tenants
- tenants are eligible to choose the services, facilities and rights irrespective of whether they are in receipt of rent rebates
- the authority does not have, and has not had in the two years prior to the current subsidy year, regard to the housing benefit status of tenants in letting dwellings where modular improvements are then offered
- the additional payments made to the authority in return for the services, facilities and rights are reasonable.

Disproportionate rent increases

The rule is intended to prevent local authorities from loading rent or service charge increases onto tenants in receipt of rent rebates in the knowledge that the costs will be met by subsidy. Subsidy is reduced if tenants in receipt of rebates are subject to higher charges than non-rebate tenants. Subsidy is not reduced if all of the following apply.

- In its rent setting policies and practices the authority has set rents for the relevant financial year solely according to the type, condition, class or description of the dwellings and according to the services, facilities or rights provided to the tenant.
- In its rent setting policies and practices for the relevant financial year the authority has made reasonable charges, having regard to the type, condition, class or description of the dwellings and any services, facilities or rights provided to the tenant.

- In its rent setting policies and practices the authority does not have regard to whether or not a tenant is, or may become, eligible to receive rebates.
- In its letting policies and practices the authority has not had in the two years prior to the relevant financial year, and does not have in the relevant financial year, regard to whether or not a tenant is, or may become, eligible to receive rebates.

14.1.3 Rent setting

Provided it can avoid a debit balance on the HRA and has allowed for the effect on subsidy, a local authority can make whatever reasonable charges it considers appropriate for its housing (Housing Act 1985 s24). It must review rents from time to time and should have regard to the principle that the rent of its homes of particular classes should bear broadly the same proportion to each other as private-rented dwellings of the same classes.

Local authorities may increase rents under any express provisions in their tenancy agreements or by four weeks notice in writing under statute (Housing Act 1985 ss 102 and 103).

14.1.4 Leasing equipment

The financial controls on the leasing of equipment and the exception for operating leases and private finance transactions have already been dealt with (see above).

Where equipment is fitted into a building in such a way as to become a fixture, it may be considered part of the building. This has two consequences.

Firstly, the contractor that is providing the equipment cannot claim writing down allowances against corporation tax because the equipment no longer belongs to the contractor (Capital Allowances Act 1990 s24 and *Melluish (Inspector of Taxes) v BMI (No.3)* and others [1995] 3 WLR 630). This may be a major disadvantage to the contractor who is likely to seek increased payments from the local authority to compensate for the inability to reduce the tax liability.

Secondly, if the equipment is deemed to belong to the local authority, there is some doubt about

SUMMARY OF RELEVANT LEGISLATION

whether the exception to the definition of a credit arrangement that applies to operating leases can apply. It is a requirement of an operating lease that the asset does not pass into the local authority's ownership. Local authorities should check the position with their own auditors if in any doubt.

14.1.5 Grants to tenants

Local authority tenants are eligible for disabled facilities grants under the Housing Grants, Construction and Regeneration Act 1996. In some cases, grants are mandatory. These grants are not specifically available for energy efficiency measures but a local authority can set its own priorities for grant applications. The works that are eligible for the grants are set out in the statute. Grants to tenants are means tested under a statutory means test (s30).

Disabled facilities grants are available to provide facilities for a disabled person living in a dwelling. The categories of works that are eligible for the grants are set out in section 23 of the Act. They include works required:

- to improve a heating system to meet the needs of a disabled occupant
- to provide a heating system if there is none
- to replace a heating system if the existing one is unsuitable.

14.1.6 Loans for local authorities tenants**14.1.6a Direct loans by the local authority**

Local authorities have no specific powers to lend money to their own tenants. Under section 21 of the Housing Act 1985 they have general powers relating to the management, regulation or control of their housing. Under section 111 of the Local Government Act 1972 local authorities have powers to do anything that is calculated to facilitate, or is conducive or incidental to the discharge of its functions. It is unlikely that either of these powers would authorise direct loans to tenants.

14.1.6b Powers to channel grants or loans through other organisations (Local Government and Housing Act 1989 s169)

Section 169 authorises local authorities to give financial assistance to registered social landlords,

charities and other bodies approved by the Secretary of State to enable them to provide any services to occupiers. This provision is sufficiently widely worded to enable local authorities to provide funds to these organisations which they will use to provide grants or loans to the authority's tenants. These grants and loans could not be made available for gas and electrical appliances apart from heating appliances that are fixed in the dwelling.

The local authority must take account of the extent to which the organisation will charge the public for its services, and any other sources of finance available to the organisation.

14.1.6c Other powers to channel grants and loans through other organisations (Local Government Act 1972 s137)

Section 137 of the Local Government Act 1972 enables a local authority to incur expenditure on any activity that is not otherwise authorised if it is of the opinion that it is in the interests of, and will bring direct benefit to its area, or any part of it or all or some of its inhabitants. The power cannot be used for any purposes authorised or required to be made by any other statutory provision. There are specific powers to give grants to voluntary organisations. This power could be used for the voluntary organisation to provide loans to local authority tenants provided that organisation was not a body that could be funded under section 169 (see section 14.1.6b), eg a credit union. There is a financial limit on the amount that can be spent under this provision each year based on the population of the authority's area.

14.1.6d Publicising loans available for tenants from the private sector

There is no specific power authorising local authorities to use publicity measures to encourage tenants to take up loans from the private sector.

Housing authorities that are also unitary authorities, and therefore have responsibilities as weights and measures authorities, may make, or assist in making arrangements to provide advice to or for the benefit of consumers of goods and services in their area and this could include the

SUMMARY OF RELEVANT LEGISLATION

availability of low-cost loans for energy efficiency measures. (Weights and Measures Act 1985 s69).

14.1.6e Restrictions on providing personal data to lenders

The Data Protection Act 1984 regulates the disclosure of personal data held on computer. Local authorities intending to provide any personal data to lenders should ensure that:

- they have registered the provider as a person who may receive data from them
- they have registered the use to which the data will be put to, include identifying potential customers for loans or energy efficiency measures
- tenants are informed that personal data may be transferred and given an option not to have data passed
- any information passed to a provider is up-to-date and is then updated regularly.

14.1.6f Restrictions on providing advice on credit arrangements

The Consumer Credit Act 1974 requires that most organisations that are credit broking (ie setting up credit arrangements for others) must be licensed under the Act. Local authorities are exempt from registration (ss21 and 147).

14.1.6g Controls over goods, advertisements and descriptions

Where an organisation provides or advertises goods or services for sale, those adverts are covered by the Trade Descriptions Act 1968 and Consumer Protection Act 1987. It is an offence to give a false trade description to goods or make false or misleading statements as to services. It is an offence to give a misleading indication as to price, eg the availability of discounts. Authorities must therefore ensure that any information provided is accurate and not misleading.

14.1.7 Bulk discounts for tenants

14.1.7a Direct sales by the local authority

Under section 10 of the Housing Act 1985, a local authority may fit out any dwelling provided by them with furniture, fittings and conveniences. They may then sell or supply under hire purchase

or on conditional sale agreement, furniture provided to the occupants and may buy furniture for that purpose.

This provision therefore enables a local authority to acquire energy-efficient appliances by bulk purchase and resell them or provide them on hire purchase.

14.1.7b Publicising bulk discounts available from the private sector

The same provisions apply as to publicising loans (see paragraphs 14.1.6d,e and f).

In addition, where goods are provided, it is an offence to supply goods which do not comply with any safety requirements (Consumer Protection Act 1987 s10).

14.1.8 Local authorities involvement in companies

14.1.8a Powers to participate in companies

There are no specific powers authorising local authorities to establish or support or participate in a company established to provide services to its tenants, eg an ESCO.

General management powers

Where a company is established which provides services to the local authority, eg energy efficiency improvements, the general management and ancillary powers referred to in paragraph 14.1.6a may provide authority for local authority participation.

Powers to promote economic development

Under section 33 of the Local Government and Housing Act 1989 local authorities have powers to promote economic development. This includes powers to participate in and the provision of financial and other assistance for:

- the setting up of any commercial, industrial or public undertaking in the authority's area or expansion which will increase employment opportunities in the area
- the creation or protection of opportunities for employment in its area.

The local authority may take shares in the undertaking alone or jointly with others, eg in a joint venture company. There are some

SUMMARY OF RELEVANT LEGISLATION

restrictions on the types of activities in which local authorities may become involved (Local Government (Promotion of Economic Development) Regulations 1990 SI 763 as amended). Relevant restrictions provide that the local authority cannot use this provision to authorise the following activities by the authority:

- purchase of goods for resale or hiring
- sale or hiring of goods as agent for another person
- acquisition of services for supply to others
- supply of services as agent of another person.

This does not prevent a local authority participating in a company that carries out these activities, eg a company set up to obtain bulk purchase discounts.

The powers available under section 33, supplemented by the ancillary powers in the Local Government Act 1972 s111 (see paragraph 14.1.6a) provide considerable scope for participation in companies.

14.1.8b Controls on participation in companies

The Local Government and Housing Act 1989 controls local authorities' interests in some companies and industrial and provident societies (eg housing associations). The text below applies to both types of organisation unless otherwise stated. In this Report, the main interest is local authority involvement in unregulated companies, it is therefore important to understand the types of companies that are subject to regulation.

Unregulated companies

The Local Government and Housing Act 1989 and the 1995 Companies Order do not effect any companies other than those described below. The financial transactions of companies unaffected are therefore entirely separate from those of the local authority and any borrowing is outside the capital controls on local authorities. In particular, the controls do not affect many companies which are local authority influenced but which do not meet the additional test, eg of dominant influence. These companies are often referred to as private sector influenced companies. Many joint venture companies are set up as private sector influenced companies but the local authority must still have power to participate in such companies.

Regulated companies

Only some companies are regulated under the Act. Local authorities must use any influence or control they have to ensure that regulated companies comply with certain requirements contained in regulations 4-18 of the Local Authorities Companies Order 1995 SI 849. Significant requirements are:

- a regulated company must provide financial information to the local authority's auditors
- a regulated company must reply to requests for information about their work from individual councillors of the local authority (subject to normal rules of confidentiality).

However, the most important effect for the local authority is that capital transactions of a regulated company, including borrowing by the company, are effectively treated as if they were done by the authority.

There are two types of regulated company. The first is a controlled company. The second is a regulated local authority influenced company (also sometimes known as a public sector influenced company). The category a company may fall into is measured each financial year.

Controlled companies (s68)

This is a company which is either directly, or through other companies, under the local authority's control.

- The local authority can control the majority of votes at a general meeting.
- The local authority can appoint or remove the majority of the board of directors.
- The company is treated under company law as being a subsidiary of the local authority. Where more than one local authority is involved in a company, their interests are looked at cumulatively.

Regulated local authority influenced companies (s69)

A company is considered to be 'local authority influenced' if it has a 'business relationship' with the local authority (see below) and:

- at least 20% of its committee or board of directors are people associated with the local authority; or
- at least 20% of the voting rights at a board or

SUMMARY OF RELEVANT LEGISLATION

committee meeting are people associated with the local authority; or

- at least 20% of the voting rights of all members entitled to vote at a general meeting are people who are associated with the local authority.

A person is associated with the local authority if he or she:

- is or has been a local authority councillor within the past four years
- is currently an employee of the local authority
- is currently an employee or director of a local authority controlled company.

A company has a 'business relationship' with the local authority where there are financial transactions between the two, and includes organisations:

- which, within a period of 12 months, have more than half of their turnover associated with the local authority or a local authority controlled company; or
- where more than half of their turnover is derived from assets which originated from the local authority or a local authority controlled company; or
- where the total of grants for capital purposes made to the company and the value of shares held by the local authority and loans made exceeds one half of the company's assets
- which occupy land provided by the local authority provided at less than the market rent
- the company intends to enter into a transaction and, when it does, there will be a business relationship. Not all local authority influenced companies are regulated. A local authority influenced company is regulated only if it also meets the following additional conditions:
 - It is an industrial and provident society; or
 - is an unlimited company; or
 - It is a company and the local authority would be treated as exercising a dominant influence over the company under company law or would have to prepare group accounts (Local Authorities Companies Order 1995 SI 849 regulation 1(4)).

Dominant influence essentially means the local authority must be able to ensure that its wishes are

complied with in relation to the operating and financial policies of the organisation regardless of whether these wishes are for the benefit of the organisation and its users. It is the potential for exerting influence that matters and not how such power is exercised.

Special rules for companies involved with more than one local authority (s73)

Where more than one local authority participates in a company:

- the test of whether a business relationship exists requires looking at the total contributions made by the local authorities to the organisation's activities
- the proportion of membership or committee membership test is then satisfied if it is met by taking into account the total representation of all the authorities whose contributions are taken into account when meeting the business relationship test.

If those two tests are satisfied then an industrial and provident society is treated as being under the influence of any local authority that has a right to vote at its general meeting or where there is a person associated with the authority who is a committee member. In the case of a company limited by guarantee, the company must also be under the dominant influence of a local authority.

14.1.8c Powers to provide services to companies (Local Authorities (Goods and Services) Act 1970)

This Act authorises a local authority to enter into an agreement with a public body for:

- the supply of goods and materials
- the provision of administrative, professional or technical services
- the use of apparatus or equipment
- the carrying out of maintenance on any land for which the public body is responsible (s1).

A company such as an ESCO or joint venture company will not automatically qualify as a public body but it is possible to apply to the DETR for the company to be added to the list of organisations considered to be public bodies.

SUMMARY OF RELEVANT LEGISLATION

14.1.9 Supplying heat and electricity (Local Government Miscellaneous Provisions Act 1976 s11)

This Act gives authorities powers to:

- produce heat or electricity or both
- establish and operate such generating stations and other installations as the authority thinks fit for the purposes of producing heat or electricity or both
- buy or otherwise acquire heat
- use, sell or otherwise dispose of heat produced or acquired or electricity produced by the authority
- enter into agreements for the supply by the authority to premises inside or outside its area of heat, steam, hot air and hot water.

The power to sell electricity is restricted to electricity produced in association with heat. Local authorities are subject to the licensing requirements of the Electricity Act 1989 when they produce electricity.

14.1.10 Providing training and employment opportunities (Local Government and Housing Act 1989 s33)

The provisions of section 33 enable local authorities to help establish and participate in initiatives to create vocational training and employment opportunities which may include or be targeted at also promoting energy efficiency measures in their own housing (see paragraph 14.1.8a).

14.2 SUMMARY OF KEY LEGISLATION – REGISTERED SOCIAL LANDLORDS AND UNREGISTERED HOUSING ASSOCIATIONS AND THEIR TENANTS

Registered social landlords include most housing associations and may include other organisations such as local housing companies. These organisations are registered with the Housing Corporation or Tal Cymru as registered social landlords (RSLs). In addition, there are other housing associations that are not registered. References below to 'social landlords' includes both types of organisation unless otherwise stated but does not include any statutory body, eg local authority, housing action trust, etc.

The Local Government (Contracts) Act 1997 gives local authorities new general powers to contract with

any person or organisation for the provision of services, equipment or assets. They must be provided for the purposes of, or in connection with, the discharge of one of the local authorities' functions. This new general power will apply to many of the specific powers available to local authorities described below.

14.2.1 Powers to require improvements to stock owned by social landlords

Local authorities have a number of powers available to them to require action to improve housing owned by social landlords (and other private housing). These powers do not specifically authorise authorities to require improvements in energy efficiency but can relate to heating and thermal insulation.

Dwellings that are unfit

Amongst other reasons, a dwelling house may be unfit because it does not have adequate facilities for heating or because it is not free from dampness which is prejudicial to health (see Housing Act 1985 s604).

Under section 189 of the Housing Act 1985 or section 81 of the Housing Grants, Construction and Regeneration Act 1996, where a local authority is satisfied that a dwelling house or a house in multiple occupation (HMO) is unfit for human habitation it may serve a repair notice or a deferred action notice. These set out the works the authority considers are required to make the property fit and can include improvements, eg to thermal insulation, heating systems, etc (see section 189).

Dwellings that are prejudicial to health

Under the Environmental Protection Act 1990 section 80, a local authority may serve an abatement notice when it is satisfied that a statutory nuisance exists or is likely to occur or recur. The definition of statutory nuisance includes premises that are prejudicial to health, eg because of dampness caused by inadequate heating or lack of thermal insulation (s79).

An abatement notice sets out the steps required to ensure the premises are no longer prejudicial to health. This can include installation of heating and thermal insulation.

SUMMARY OF RELEVANT LEGISLATION

14.2.2 Loans and grants to finance energy efficiency**14.2.2a Powers to provide grants (Housing Grants, Construction and Regeneration Act 1996)**

There are a number of grants available to social landlords and occupants of their housing. The award of all grants except certain disabled facilities grants is discretionary. None of the statutory provisions is specifically available for energy efficiency measures but a local authority can set its own priorities for grant applications. The works that are eligible for renovation, HMO and disabled facilities grants are set out in the statute. Grants to tenants are means tested under a statutory means test (s30). The local authority can use its own criteria to determine the amounts payable to social landlords (s31). Tenants are generally not eligible for any grants except disabled facilities grants (ss9 and 22).

Renovation Grants (s12)

Renovation grants are provided for the improvement or repair of dwellings. The categories of works that are eligible for the grants are set out in section 12 of the Act. They include works required:

- to make a dwelling fit for human habitation
- to provide adequate thermal insulation
- to provide adequate space heating.

HMO grants (s27)

These are provided for similar purposes to renovation grants, but for HMOs rather than single dwellings.

Disabled facilities grants (s23)

See paragraph 14.1.5.

14.2.2b Powers to provide Home Repair Assistance in the form of a grant (Housing Grants, Construction and Regeneration Act 1996 s76)

Under the provisions for Home Repair Assistance, an authority can choose which works it wishes to fund. It could therefore decide that a certain amount of its budget is available only for the installation of energy efficiency measures. Home Repair Assistance can be provided in the form of a grant or by the provision of materials for carrying out repairs, improvements or

adaptations to a dwelling. Assistance can be provided only to qualifying people.

The maximum assistance that can be provided is £2000 but two applications can be made within a three-year period and could be made at the same time (The Disabled Facilities Grants and Home Repair Assistance (Maximum Amounts) Order 1996).

The recipient of the assistance must live in the dwelling as his or her only or main residence. However, if the materials are to adapt a dwelling for an elderly, disabled, or infirm person, it is only necessary that they are proposing to make the dwelling their only or main residence when it is suitable. The applicant may be a tenant of a social landlord. A tenant must have power to carry out the works (s77).

Applicants must be receiving income support, family credit, housing benefit, council tax benefit, or disability living allowance, or the application must be for the benefit of a person who is elderly, disabled, or infirm (s77).

14.2.2c Powers to provide secured loans or to guarantee loans (Housing Act 1985 ss435-442)

Local authorities have powers to provide loans to enable social landlords to repair or improve a house or to repay a previous loan provided for the purchase or improvement of a house. Such a loan can be provided in addition to any other financial assistance that the authority is providing (s435(4)).

The loan must be secured by a mortgage on the freehold or a leasehold interest exceeding 10 years and interest must be charged (ss 436, 438 and schedule 16) but there are provisions enabling the authority to obtain approval from the Secretary of State for a scheme that enables payments due to be waived or interest to be reduced (s441). The loan cannot be more than the value of the security.

The effect of the requirement that the loan must be secured, is that this form of loan is not available to tenants.

SUMMARY OF RELEVANT LEGISLATION

14.2.2d Powers to provide financial assistance for privately let housing accommodation (Local Government Act 1988 s24)

Local authorities have powers to provide any person with financial assistance for the purposes of, or in connection with the conversion, rehabilitation, improvement, maintenance, or management of any property which is intended to be privately let as housing accommodation. Privately let accommodation includes accommodation provided by social landlords but does not include accommodation provided by the local authority or other public bodies. Local authorities can make a grant or a loan or provide a guarantee for a loan to tenants or landlords.

Use of the power is subject to the Secretary of State's consent (s25).

The Secretary of State has powers to issue consents for a particular case, to particular local authorities, to categories of cases or as general consents applying to all authorities. Consent could therefore be given in principle to a local authority to provide interest free loans for improvements to the energy efficiency of a dwelling.

General consents have been issued. Those consents relevant to energy efficiency authorise:

- local authorities to lend money to registered social landlords in connection with the carrying out of rehabilitation, or improvement of housing accommodation
- local authorities to provide small amounts of financial assistance or gratuitous benefit to all landlords. The total that can be provided in a financial year is limited to £1.35 per head of the population. No assistance can be provided in addition to a housing grant.

Gratuitous benefit would include the provision of materials at less than the cost.

14.2.2e Powers to channel grants or loans through other organisations (Local Government and Housing Act 1989 s169)

See paragraph 14.1.6b.

14.2.2f Powers to incur expenditure for purposes not otherwise authorised (Local Government Act 1972 s137)

See paragraph 14.1.6c. This power could be used to create a fund to provide loans to tenants of social landlords.

14.2.3 Providing energy efficiency services and materials to social landlords and their tenants

There are a number of statutory powers authorising local authorities to provide energy efficiency services and materials to landlords and to tenants (excluding local authority tenants).

However, there are no specific statutory powers with regard to the provision of energy efficiency advice, which may be a key factor used by local authorities to encourage and promote energy efficiency in this sector. In particular, the Home Energy Conservation Act 1995 provides no specific power to give such advice. None the less, there are a number of powers available that can be used to authorise the provision of energy advice services.

14.2.3a Powers to provide services to owners and occupiers (Local Government and Housing Act 1989 s169)

Local authorities have powers to provide professional, technical, and administrative services for owners or occupiers of dwellings in connection with their arranging or carrying out certain works. The owner can include a social landlord.

The services do not have to be restricted to owners and occupiers who are financially eligible for grants nor to those who have applied for grants. The authority can also provide services to encourage or facilitate the carrying out of the works.

The works that qualify are as follows.

Works to make a dwelling fit for human habitation

Amongst other reasons, a dwelling may be unfit because it does not have adequate facilities for heating or because it is not free from dampness which is prejudicial to health (see Housing Act 1985 s604). Works to make a dwelling fit may therefore

SUMMARY OF RELEVANT LEGISLATION

include adequate heating. They may include heating and insulation if dampness is caused by inadequate insulation.

Works that would qualify for a disabled facilities grant

These works are defined in the Housing Grants, Construction and Regeneration Act 1996 section 23. They include works to improve a heating system to meet the needs of a disabled person or providing a heating system if there is not already one, or if it is unsuitable.

Works that would qualify for a renovation or HMO grant

These works are defined in the Housing Grants, Construction and Regeneration Act 1996 ss12 and 27. They include works to provide adequate thermal insulation or adequate facilities for space heating.

Works in relation to Home Repair Assistance

These works are defined in the Housing Grants, Construction and Regeneration Act 1996 section 76 as any works of repair, improvement or adaptation.

The local authority must decide whether it wishes to charge for the services and must take reasonable measures to collect any contributions due.

14.2.3b Powers to fund services to owners and occupiers by other organisations (Local Government and Housing Act 1989 s169)

See paragraph 14.1.6b.

14.2.3c Powers to incur expenditure for purposes not otherwise authorised (Local Government Act 1972 s137)

See paragraph 14.1.6c.

14.2.3d Powers to support housing associations and registered social landlords financially (Housing Associations Act 1985 s58 and Housing Act 1996 s22)

These provisions authorise local authorities to provide financial assistance for any services that are within the objects of the organisation. A local authority can also promote the setting up of a new organisation.

Unregistered housing associations are non-profit making bodies where the principal objects include providing, improving or managing housing. (Housing Associations Act 1985 s1). A local authority can subscribe for loan or share capital or lend money to these housing associations but cannot make a grant.

Local authorities can provide loans or grants to registered social landlords or guarantee loans obtained by them.

14.2.3e Powers to provide consumer advice (Weights and Measures Act 1985 s69)

See paragraph 14.1.6d.

14.2.3f Restrictions on providing advice

The Consumer Credit Act 1974 requires that most organisations which are credit broking (ie setting up credit arrangements for others) must be licensed under the Act. Local authorities are exempt from registration (ss21 and 147).

14.2.3g Powers to provide Home Repair Assistance in the form of materials (Housing Grants, Construction and Regeneration Act 1996 s76)

See paragraph 14.2.2b. Home Repair Assistance can also be provided in the form of the provision of materials.

14.2.3h Powers to sell or supply furniture under hire purchase to occupants of housing provided by registered social landlords (Housing Act 1996 s22)

This provision enables local authorities to sell or supply furniture on hire purchase to occupants of housing provided by RSLs. Furniture can include gas and electrical appliances.

14.2.3i Powers to carry out works to private housing (Housing Grants, Construction and Regeneration Act 1996 s57)

This provision authorises local authorities to carry out any works that would be eligible for a housing grant and any further works that it is necessary or desirable to carry out at the same time if they have the permission of the social landlord. The works must be paid for by the landlord.

SUMMARY OF RELEVANT LEGISLATION

14.2.3j Powers to provide services to registered social landlords (Local Authorities (Goods and Services) Act 1970)

See paragraph 14.1.8c. An RSL is a public body for these purposes (The Local Authorities (Goods and Services) (Public Bodies) Order 1975 SI 193).

14.2.3k Controls over goods, advertisements and descriptions

Where local authorities provide or advertise goods or services for sale, those adverts are covered by the Trade Descriptions Act 1968 and Consumer Protection Act 1987. It is an offence to give a false trade description to goods or make false or misleading statements as to services. It is an offence to give a misleading indication as to price, eg the availability of discounts.

14.2.4 Supplying heat and electricity (Local Government (Miscellaneous Provisions) Act 1976 s11)

See paragraph 14.1.9.

14.2.5 Providing training and employment opportunities (Local Government and Housing Act 1989 s33)

See paragraph 14.1.10.

14.3 POWERS AVAILABLE TO SOCIAL LANDLORDS

Social landlords are not subject to any of the statutory rules applicable to local authorities. Their ability to carry out or facilitate energy efficiency measures depends entirely on:

- any restrictions imposed by funders on the use to which grants can be put
- their own objects set out in their rules, constitution or memorandum and articles of association
- if they are charities, any restrictions imposed by charity law.

If social landlords provide loans that are regulated under the Consumer Credit Act 1974 or arrange loans on behalf of tenants, they will need to be licensed.

REFERENCES

1. **Department of the Environment, Transport and the Regions.** Good Practice Guide 82, 'Energy efficiency in housing – guidance for local authorities'. DETR, London, 1997
2. **Department of the Environment, Transport and the Regions.** Circular 2/96, 'Home Energy Conservation Act 1995'. DETR, London, 1996
3. **Department of the Environment, Transport and the Regions.** 'A guide to the Local Government Capital Finance System'. DETR, London, 1997
4. **Department of the Environment, Transport and the Regions.** 'The Private Finance Initiative and Local Authorities – an explanatory note'. DETR, London, 1997
5. **Department of the Environment, Transport and the Regions.** Good Practice Guide 234, 'Guide to community heating and CHP. Commercial, public and domestic applications'. DETR, London, 1998
6. **Department of the Environment, Transport and the Regions.** Good Practice Guide 240, 'Community heating – a guide for housing professionals' (in press)
7. **Department of the Environment, Transport and the Regions.** 'Energy services for the public sector'. DETR, London, 1997
8. **Department of the Environment, Transport and the Regions.** 'Energy services for the public sector: a working guide'. DETR, London, 1997
9. **Energy Saving Trust.** EST briefing. EST, London, 1998
10. **Energy Saving Trust.** 'What price energy efficiency in council housing'. EST, London 1998
11. **Energy Saving Trust.** 'A new world for energy services?', Owen and King. EST, London, 1997
12. **Lawrence Graham Associates.** Randle S. *et al*, 'Local Housing Companies – key legal and practical issues for transfer to Local Housing Companies'. Lawrence Graham Associates, London, 1997

APPENDIX 1 GLOSSARY OF TERMS AND ABBREVIATIONS

APR	Annual percentage rate	HRA	Housing Revenue Account
CFL	Compact fluorescent lamp	HMO	Homes in multiple occupation
CHP	Combined heat and power system – provides heat and electricity for multi-residential housing.	kWh	Kilowatt hour – the unit of electrical energy usage or production that equates to a thousand watts of electrical load operating constantly for one hour
CO ₂	Carbon dioxide – a greenhouse gas produced when fossil fuels are burnt to produce energy	LASHG	Local Authority Social Housing Grant
DBFO	Design, build, finance and operate	LEEAC	Local Energy Efficiency Advice Centres, formerly Local Energy Advice
DETR	Department of the Environment, Transport and the Regions	LSVT	Large-scale Voluntary Transfer
EEAC	Energy Efficiency Advice Centre, formerly Local Energy Advice Centre (LEAC)	NEA	National Energy Action, formerly Neighbourhood Energy Action
EESoP	Energy Efficiency Standards of Performance	NES	National Energy Services Limited
ERCF	Estates Renewal Challenge Fund	OFFER	Office of Electricity Regulation
ESCO	Energy services company	OFGAS	Office of Gas Supply
EST	Energy Saving Trust	PES	Public electricity supplier, also known as RECs (regional electricity companies in England)
HECA	Home Energy Conservation Act 1995	PFI	Private Finance Initiative
HEES	Home Energy Efficiency Scheme	TRV	Thermostatic radiator valve

APPENDIX 2 USEFUL CONTACTS

Association of British Credit Unions Ltd (ABCUL)

Holyoake House, Hanover Street, Manchester M60 0AS
Tel: 0161 832 3694. Fax: 0161 832 3706

Association of Independent Credit Unions

Credit Unions House, 102 Tong Street
Bradford BD4 6HD
Tel/Fax: 01274 652042

BRECSU

BRE, Garston, Watford WD2 7JR
Tel: 01923 664258. Fax: 01923 664787

Chartered Institute of Housing

Octavia House, Westwood Business Park
Westwood Way, Coventry CV4 8JP
Tel: 01203 851700. Fax: 01203 695110

Combined Heat & Power Association (CHPA)

Grosvenor Gardens House
35/37 Grosvenor Gardens, London SW1W 0BS
Tel: 0171 828 4077. Fax: 0171 828 0310

Co-operative Bank plc

PO Box 200, Delf House, Skelmersdale
Lancashire WN8 6NY
Tel: 01695 553179. Fax: 01695 558457

Department of the Environment, Transport and the Regions (DETR)

Energy Services Team
Ashdown House, 7/D13, 123 Victoria Street
London SW1E 6DE
Tel: 0171 890 6663. Fax: 0171 890 6679

Environmental Action Programmes Team (for Environmental Action Fund)

Ashdown House, 7/G8
123 Victoria Street, London SW1E 6DE
Tel: 0171 890 7038. Fax: 0171 890 6689

Local Authority Housing Finance

Eland House, Bressenden Place, London SW1E 5DU
Tel: 0171 890 3583. Fax: 0171 890 3559

Local Government Capital Finance

Eland House, Bressenden Place, London SW1E 5DU
Tel: 0171 890 4229. Fax: 0171 890 4239/4259

Private Finance Initiative*General enquiries to:*

Robert Gregory, DETR Private Finance Unit,
Ashdown House, 8/C11
123 Victoria Street, London SW1E 6DE
Tel: 0171 890 5015. Fax: 0171 890 5009

Enquiries on the Local Government (Contracts)***Act and Capital Finance Act Regulations to:***

Mark Frankel, LGC division, Zone 5/D1 Eland House
Bressenden Place, London SW1 5DU
Tel: 0171 890 4229. Fax: 0171 890 4259

Enquiries on local PFI to:

Peter Fanning, Chief Executive
Public/Private Partnerships Programme
35 Great Smith Street, London SW1P 3BJ
Tel: 0171 664 3145. Fax: 0171 664 3178

Eaga Ltd

Eldon Court, Eldon Square
Newcastle upon Tyne NE1 7HA
Tel: 0191 230 1830. Fax: 0191 230 1823

Energy Action Scotland

Suite 4A, Ingram House, 227 Ingram Street
Glasgow G1 1DA
Tel: 0141 226 3064. Fax: 0141 221 2788

Energy Saving Trust (EST)

21 Dartmouth Street, London SW1H 9BP
Tel: 0171 222 0101. Fax: 0171 654 2444

ETSU

Harwell, Oxfordshire OX11 0RA
Tel: 01235 436747. Fax: 01235 433066

European Commission

8 Storey's Gate, London SW1P 3AT
Tel: 0171 973 1992

Housing Corporation

Waverley House, 7-12 Noel Street, London W1V 4BA
Tel: 0171 292 4400

Local Government Association

35 Great Smith Street, Westminster
London SW1P 3BJ
Tel: 0171 664 3000. Fax: 0171 664 3030

APPENDIX 2 USEFUL CONTACTS

Local Government Management Board

Layden House, 76-86 Turnmill Street
 London EC1M 5QU
 Tel: 0171 296 6600. Fax: 0171 296 6666

National Association of Credit Union Workers

c/o BCUDA Ltd, Citygate House
 25 Moat Lane, Birmingham B5 6BH
 Tel: 0121 622 1062. Fax: 0121 622 7042

National Energy Action (NEA)

St Andrew's House, 90-92 Pilgrim Street
 Newcastle-upon-Tyne NE1 6SG
 Tel: 0191 261 5677. Fax: 0191 261 6496

National Energy Services Ltd (NES)

Rockingham Drive, Linford Wood
 Milton Keynes MK14 6EG
 Tel: 01908 672787. Fax: 01908 662296

National Lottery Charities Board

St. Vincent House, 16 Suffolk Street, London SW1Y 4NL
 Tel: 0171 747 5299. Fax: 0171 747 5347

New Perspectives

Bealings Barn, Great Bealings, Woodbridge
 Suffolk IP13 6PE
 Tel: 01473 735638. Fax: 01473 735638

Office of Electricity Regulation (OFFER)

11 Belgrave Road, London SW1V 1RB
 Tel: 0171 233 6366. Fax: 0171 233 6449

Office of Gas Supply (OFGAS)

Stockley House, 130 Wilton Road, London SW1V 1LQ
 Tel: 0171 828 0898. Fax: 0171 932 1600

Wise Group

72 Charlotte Street, Glasgow G1 5DW
 Tel: 0141 303 3131. Fax: 0141 303 0070

USEFUL WORLD WIDE WEB PAGES

<http://www.bre.co.uk/brecsu/>
 BRECSU Energy Efficiency Best Practice programme – buildings-related projects

<http://www.energy-efficiency.org.uk>
 EST web site for the 'Energy Efficiency' campaign

<http://www.est.org.uk>
 EST home pages

<http://www.etsu.com/eebpp/home.html>
 ETSU Energy Efficiency Best Practice programme – industrial projects

<http://www.heca.co.uk>
 A site established by a group of local authorities to help councils implement HECA and provide a forum on environmental issues

<http://europa.eu.int/en/comm/dg11/dg11home.html>
 Web site of the Directorate-General 11 (Environment) of the European Commission, includes details of funding sources

<http://europa.eu.int/en/comm/dg17/dg17home.html>
 Web site of the Directorate-General 17 (Energy) of the European Commission.

<http://www.cordis.lu>
 Community Research and Development Information Service (CORDIS) has over 2000 pages including calls for EU proposals, and details of funding opportunities.

<http://nlcb.org.uk>
 Web site of the National Lottery Charities Board

<http://www.local.detr.gov.uk>
 Web site contains a copy of the Private Finance Initiative guide

The Department of the Environment, Transport and the Regions' Energy Efficiency Best Practice programme provides impartial, authoritative information on energy efficiency techniques and technologies in industry and buildings. This information is disseminated through publications, videos and software, together with seminars, workshops and other events. Publications within the Best Practice programme are shown opposite.

For further information on:

Buildings-related projects contact:
Enquiries Bureau

BRECSU

BRE
Garston, Watford, WD2 7JR
Tel 01923 664258
Fax 01923 664787
E-mail brecsuenq@bre.co.uk

Industrial projects contact:
Energy Efficiency Enquiries Bureau

ETSU

Harwell, Oxfordshire
OX11 0RA
Tel 01235 436747
Fax 01235 433066
E-mail etsuenq@aeat.co.uk

Energy Consumption Guides: compare energy use in specific processes, operations, plant and building types.

Good Practice: promotes proven energy efficient techniques through Guides and Case Studies.

New Practice: monitors first commercial applications of new energy efficiency measures.

Future Practice: reports on joint R&D ventures into new energy efficiency measures.

General Information: describes concepts and approaches yet to be established as good practice.

Fuel Efficiency Booklets: give detailed information on specific technologies and techniques.

Introduction to Energy Efficiency: helps new energy managers understand the use and costs of heating, lighting etc.